

## NGCP'S ANCILLARY SERVICES PROCUREMENTS AGREEMENT WITH INGRID POWER HOLDINGS, INC. (IPHI) - PILILIA, RIZAL

In an ERC Order dated 04 October 2023, the Energy Regulatory Commission (ERC) granted a granted an interim relief on NGCP's Ancillary Services Procurement Agreement (ASPA) with Ingrid Power Holdings, Inc. (IPHI), docketed as ERC Case No. 2023-051 RC, entitled "*In the Matter of the Application for Approval of the Ancillary Services Procurement Agreement Between the National Grid Corporation of the Philippines (NGCP) and Ingrid Power Holdings, Inc. (IPHI), with Prayer for the Issuance of Provisional Authority*", stating that:

The National Grid Corporation of the Philippines (NGCP) and Ingrid Power Holdings, Inc. (IPHI) are **GRANTED** interim relief to implement their Ancillary Services Procurement Agreement (ASPA) for the 179.824MW aggregated rated capacity of Pililia Diesel Power Plant (PDPP) located in National Road, Brgy. Malaya, Pililia, Rizal, subject to the following rates and conditions, and without prejudice to the evaluation of the compliance of NGCP to the Ancillary Service-Competitive Selection Process (AS-CSP), pursuant to the Department of Energy's (DOE) Department Circular No. DC2021-10-0031<sup>1</sup> (DOE 2021 AS-CSP Circular):

### 1. Applicable Rates:

IPHI shall charge the Applicable Rate (in Peso per kW capacity per hour) for the Contingency Reserve (CR) capacity to NGCP, as defined below.

The Ancillary Services (AS) capacity indicated in Schedule 1 of the ASPA is the hourly CR Firm capacity.

1.1. The applicable rate shall be as follows:

#### a. Scheduled capacity without energy dispatched

NGCP shall pay IPHI the Applicable Rate, as herein defined, for the scheduled capacities indicated in Schedule 1 of the ASPA, which should not be more than the indicated capacity of 28MW each for Sectors 1, 4 and 6, and 22MW for sector 2 for CR. The authorized rate is as follows:

Ancillary Service	Authorized Rate (Hourly Rate)
	Firm
Contingency Reserve	PhP1.50/kW/hr

#### b. Scheduled capacity with energy dispatched

Based on actual dispatch, the cost of generation shall be recovered through settlement in the Wholesale Electricity Spot Market (WESM). Thus, the Incidental Energy (IE) Cost based on actual dispatch shall be calculated using the following formula:

Incidental Energy Cost Payment for CR:

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

<sup>1</sup> Department of Energy, "Prescribing the Policy for the Transparent and Efficient Procurement of Ancillary Services by the System Operator," Department Circular No. DC 2021-10-0031 (04 October 2021).

In the event that 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 Variable Operations and Maintenance (VOM) rate as awarded in the AS-CSP will not be subject to any indexation and adjustment. Should the ASPA provider receive payments beyond the allowable revenues as provided herein, including as a result of WESM settlements, such amounts in excess shall be used to off-set all or part of the payables in the immediately preceding billing month;
  - 1.3 The term of the ASPA shall be for a period of five (5) years upon the approval by the Commission, subject to Section 13 (Termination) of the ASPA. Renewal shall not be allowed, and termination of the ASPA shall be subject to prior approval by the Commission;
  - 1.4 The total dispatched capacities of CR shall not exceed 28MW each for Sectors 1, 4, and 6, and 22MW for Sector 2, at any given time;
  - 1.5 For the replacement of AS capacity, the rate to be applied shall be the interim approved rate or the actual replacement cost, whichever is lower, pursuant to the Commission's policy on replacement power;
  - 1.6 The implementation of the ASPA shall be contingent on the validity of the AS Certificate issued by NGCP, and the Certificate of Compliance (COC) issued by the Commission.
2. NGCP is **DIRECTED** to optimize the economic and technical dispatch of the available AS capacity, wherein it shall schedule a mix of hourly AS capacity, at the least cost, for a reserve needed to maintain power quality, security, reliability and integrity of the grid;
  3. The rate to be paid by NGCP as AS cost should be passed on to its customers, in accordance with the approved Ancillary Services-Cost Recovery Mechanism (AS-CRM)<sup>2</sup>.

In relation thereto, NGCP is **DIRECTED** to submit its monthly computation of AS rates, encompassing a comprehensive breakdown, including but not limited to scheduled, dispatched, VOM, and fuel costs that it passed on to its customers, with supporting documents, including receipts of fuel purchases, on or before the 15<sup>th</sup> day of the month after the computed billing month;

4. NGCP must **ENSURE** that the rates of **IPHI** must be in accordance with item 1.1 above. In the event that the final rates are lower than those of the interim rate granted, the amount corresponding to the reduction shall be refunded by IPHI to NGCP, and the latter shall pass it on to its customers;
5. To ensure the reliability and integrity of the grid, Applicants are **DIRECTED** to deliver the contracted capacities under their Firm AS contract arrangements. Applicants must honor their Firm AS contract arrangements, which means that NGCP must **ENSURE** that the contracted capacities under the instant ASPA shall be both declared and scheduled for dispatch at the least cost manner. Further, IPHI must ensure that its contracted capacities shall be available at all times to provide the AS requirements of the grid; and
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

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<sup>2</sup> Decision ERC Case No. 2006-049 RC, 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, National Transmission Corporation (TRANSCO).

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 attendant to such drawing of capacities from non-firm contracts. NGCP, on its own account, shall be responsible for settling such amount with its AS provider.

On 02 February 2024, IPHI filed a *Motion for Reconsideration with Very Urgent Motion for Re- Evaluation of the Interim Approved Rates ("Motion for Reconsideration")* as the Commission modified the rates in the ASPA and disallowed the indexation or adjustments in the VOM.

IPHI in its Motion for Reconsideration argued and stated the following:

1. The results of the Ancillary Service – Competitive Selection Process ("**AS-CSP**") should be preserved as it allowed NGCP to procure Ancillary Services ("**AS**") at the least cost manner. IPHI's rates should not be compared with the rates under older ASPAs because rate benchmarking should be done on a comparable basis and there exist substantial differences between older ASPAs and ASPAs procured under the AS-CSP.
2. Reconsideration on the indexation in the VOM rates as the bidding documents and previous rulings of the Commission allow for indexation to retain the value of money in long term contracts.
3. IPHI is operating at a loss and the approval of the ASPA at the rates embodied therein is indispensable to allow IPHI to operate at viable and sustainable levels. Consequently, there is a risk of the plant assets being pulled out if the rates embodied in the ASPA are not approved.
4. Under Section 13.3 of the ASPA, a diminution of the rates in the ASPA constitutes a **Material Adverse Change** that would entitle IPHI to exercise its right to terminate.
5. Given that the Commission has capped IPHI's rates in its Order at PhP1.50/kW/hr and disallowed indexation in the VOM rate, IPHI exercised its remedies allowed under the ASPA and sent a **Notice of Material Adverse Change ("Notice")** to NGCP on 20 February 2024.
6. In the Notice, IPHI mentioned that the Capacity Payment and VOM rates embodied in the ASPA were formulated based on IPHI's degree of comfort, strict compliance with the Terms of Reference of NGCP's AS-CSP, and on terms that would allow IPHI to operate viably with due regard to the risks and exposures IPHI was willing to absorb under the ASPA. IPHI, in good faith, offered the rates during the AS-CSP and took into account the following risks, among others: possibility of being awarded partial capacities, the need to ensure 100% availability and requirement to provide replacement capacity, uncertainties in the reserve market operations, exposure of any uncontracted capacity to uncertain revenue streams, market-based analysis of the competitive landscape, and the need for clarity in the implementation of the modes of operation.

7. The Commission's Order substantially reduced, modified, and capped the rates under the ASPA, to the effect that the **Interim Approved Rates is not anymore, the rate/s that IPHI offered in its bid and which were the basis for NGCP to award an ASPA to IPHI**. Equally important is the fact that the denial of adjustments in the VOM rates, as well as the single rate in the Commission's Order, **does not account for the risks that IPHI agreed to take on under the ASPA, and will thus, compel IPHI to absorb substantial losses, additional risks, and liabilities that it is not prepared to assume and was not contemplated under the ASPA.**
8. Considering the occurrence of such Material Adverse Change, IPHI urgently sought to discuss with NGCP arrangements to address the impact of such event and to restore and/or preserve the same overall balance of benefits, liabilities, and risks between the Applicants.
9. IPHI would like to inform the Commission that on 04 March 2024, **the NGCP and IPHI already commenced good faith negotiations pursuant to the ASPA to address the Material Adverse Change.** IPHI mentioned that the deferment of the implementation of the ASPA would mitigate the risks and liabilities that IPHI will absorb under the Interim Approved Rates and sought NGCP's consideration to also await the resolution by the Commission of IPHI's Motion for Reconsideration. NGCP also expressed the view that the Material Adverse Change is beyond the scope of discussions between the parties since the diminution of rates is a matter for the Commission to decide.
10. However, considering that the **Material Adverse Change would not continue to exist** should the Commission reconsider its Order and **approve the ASPA rate applied for** by the Applicants, the Applicants agreed to defer to the Commission's resolution of IPHI's Motion for Reconsideration.
11. **Nonetheless, IPHI notes that under the ASPA, should the parties fail to agree on any other arrangements within thirty (30) days from the commencement of negotiations, IPHI would be compelled to explore and consider taking steps to terminate the ASPA especially if the approval of the ASPA rates is not forthcoming.**
12. While IPHI is eagerly awaiting for the Commission's resolution of its Motion for Reconsideration, there is a very **serious and imminent threat** of the one-hundred-sixty (162) modular diesel engine generating units, comprising IPHI's Pililia Diesel Power Plant ("**Plant**"), **being pulled out** by Aggreko International Projects Limited ("**Aggreko**"), the lessor of the Plant.
13. As previously mentioned in IPHI's pleadings and filing<sup>3</sup> with the Commission, the continued lease of the Plant from Aggreko and its continued operations is hinged on IPHI's successful implementation of the ASPA at the rates embodied therein, without which, Aggreko is not able to achieve its required project return and will be compelled to re-examine the viability of its assets in the Philippines. Aggreko also has projects in other countries which may give better returns and with more certainty on timelines, which may likely result to the modular diesel engine generating units being re-deployed outside of the Philippines to meet demand from these utilities. This would result in a decrease of 179.824 MW aggregated rated capacity available in the grid.
14. **If the rate embodied in the ASPA is not approved, IPHI runs the risk of losing the Plant. In the agreements with Aggreko, IPHI is expected to participate in the AS-CSP, win, enter into an ASPA with NGCP, and have that ASPA, especially the rates embodied therein, approved by the ERC, and subsequently implemented. If the rate embodied in the ASPA is not approved and Aggreko's required project return is not reached, Aggreko has a right to terminate the lease agreement with IPHI,**

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<sup>3</sup> Urgent Motion for the Issuance of Interim Relief dated 29 November 2023 and Motion for Reconsideration with Very Urgent Motion for Re-evaluation of the Interim Approved Rates dated 02 February 2024

**subsequently de-commission the Plant, and re-deploy the modular diesel engine generating units outside of the Philippines where there is a demand for them.**

15. As early as 12 December 2022, Aggreko already informed IPHI that, among other things, in case IPHI is not awarded an ASPA by 30 April 2023, either Aggreko or IPHI shall be entitled to terminate the existing lease and operations and maintenance agreements between the parties, subject to the payment of early demobilization charges.
16. In several discussions with IPHI after it received the Commission's Order modifying the rates, Aggreko communicated that it has committed significant resources in the last four years to realize this investment in the Philippines while passing up opportunities to monetize its fleet and investment with other customers. **The implementation of rates different from the rates embodied under the ASPA would mean that Aggreko will not have a guaranteed means of monetizing the Plant in the Philippines and may compel Aggreko to change its strategy and mitigate its risks by re-deploying the assets immediately outside the Philippines. IPHI merely pleaded with Aggreko to re-consider and await the decision of the Commission.**
17. **Since then and to date, IPHI has been engaged in good faith negotiations with Aggreko to work together while awaiting the Commission's resolution of the Motion for Reconsideration or Final Approval of the ASPA.** However, Aggreko has always reserved its right to pull out the Plant should the Honorable Commission decide unfavorably that would result in IPHI being unable reach Aggreko's required project return.
18. **Given the foregoing, IPHI urges the Commission to urgently resolve IPHI's Motion for Reconsideration, approve the Capacity Payment Rate as applied, and allow the indexation of the VOM rate to ensure that the Plant remains here in the Philippines and remains operational to provide contingency reserve services to NGCP. This would help in maintaining grid reliability and security and provide the much-needed reserve capacities especially for the summer months where high electricity demand is inevitable.**

In a Notice of Resolution dated 29 May 2024, the Commission after due deliberation and evaluations **RESOLVED** to **PARTIALLY GRANT** Applicant IPHI's *Motion for Reconsideration dated 02 February 2024*, subject to the conditions below.

The Ancillary Service (AS) Rate granted to Applicants NGCP and IPHI as Interim Relief to implement their Ancillary Services Procurement Agreement (ASPA) as approved in the *Order* dated 04 October 2023 is modified as follows:

**1. Applicable Rates:**

xxx

**1.1 The applicable rates shall be as follows:**

**a. Scheduled capacity without energy dispatched**

NGCP shall pay IPHI the Applicable Rate, as herein defined, for the scheduled capacities indicated in Schedule 1 of the ASPA, which should not be more than the indicated capacity of 28MW each for Sectors 1, 4, and 6, and 22MW for Sector 2, for CR. The authorized rate is as follows:

Ancillary Service	Previous Authorized Rate (Hourly Rate)	New Authorized Rate (Hourly Rate)
	Firm	Firm
Contingency Reserve	PhP1.50/kW/hr	PhP4.19/kW/hr

2. The *Order* is without prejudice to any penalty that NGCP may impose under the subject ASPA for IPHI's failure to provide the contracted AS requirement pursuant to the Commission's *Order* dated 04 October 2023.
3. Likewise, the *Order* is without prejudice to the imposition of appropriate penalties, subject to due process, to IPHI for its failure to comply with the Commission's order dated 04 October 2023.

Other terms and conditions stated in the Order dated 04 October 2023 shall remain in effect, particularly items 1.1(b), 1.2-1.6, and 2-6.

The *Notice* is being issued due to lack of material time in promulgating the official *Order* in the above-captioned case. The formal *Order* will be issued shortly.

**Ancillary Services are pass-through costs of NGCP. Nevertheless, the above ASPA rate is the result of Competitive Selection Process with the objective of providing lower AS costs for the benefit of the customers with ERC granting interim relief on the arrangement**

In view of the foregoing, NGCP shall implement the billing of the ASPA with **IPHI** based on the interim relief granted by the Commission **effective June 2024 billing month** (May 26, 2024 to June 25, 2024) for Luzon Customers.

Attached is a copy of the Notice of Resolution and copy of the Order may be downloaded at <http://www.erc.gov.ph/Orders>.

This Customer Bulletin was prepared by the Revenue Management Department (RevMD) of the Revenue and Regulatory Affairs (RRA). For any questions/inquiries, you may send an email to [gtpena@ngcp.ph](mailto:gtpena@ngcp.ph).

Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
Pasig City

**NOTICE OF RESOLUTION**

In Re: **ERC Case No. 2023-051 RC**

*In the Matter of the Application for Approval of the Ancillary Services Procurement Agreement Between the National Grid Corporation of the Philippines and Ingrid Power Holdings, Inc., with Prayer for the Issuance of Provisional Authority*

National Grid Corporation of the Philippines (NGCP) and Ingrid Power Holdings, Inc. (IPHI), *Applicants*

Notice is hereby given that the Commission, after due deliberation and evaluation, during the 1098<sup>th</sup> Regular Commission Meeting held on 29 May 2024, **RESOLVED** to **PARTIALLY GRANT** Applicant IPHI'S *Motion for Reconsideration dated 02 February 2024*, subject to the conditions below.

The Ancillary Service (AS) Rate granted to Applicants NGCP and IPHI as Interim Relief to implement their Ancillary Services Procurement Agreement (ASPA) as approved in the *Order* dated 04 October 2023 is hereby modified as follows:

1. **Applicable Rates:**

x x x

1.1 The applicable rates shall be as follows:

**a) Scheduled capacity without energy dispatched**

NGCP shall pay IPHI the Applicable Rate, as herein defined, for the scheduled capacities indicated in Schedule 1 of the ASPA, which should not be more than the indicated capacity of 28 MW each for Sectors 1, 4, and 6, and 22 MW for Sector 2, for CR. The new authorized rate is as follows:



Ancillary Service	Previous Authorized Rate (Hourly Rate)	New Authorized Rate (Hourly Rate)
	Firm	Firm
Contingency Reserve	PhP1.50/kW/hr	PhP4.19/kW/hr

2. This *Order* is without prejudice to any penalty that NGCP may impose under the subject ASPA for IPHI’s failure to provide the contracted AS requirement pursuant to the Commission’s *Order* date 04 October 2024;
3. Likewise, this *Order* is without prejudice to the imposition of appropriate penalties, subject to due process, to IPHI for its failure to comply with the Commission’s *Order* dated 04 October 2023.

Other terms and conditions stated in the Order dated 04 October 2023 shall remain in effect, particularly items 1.1(b), 1.2-1.6, and 2-6.

This *Notice* is being issued due to lack of material time in promulgating the official *Order* in the above-captioned case. The formal *Order* will be issued shortly.

SO ORDERED.

Pasig City, 29 May 2024.



FOR AND BY AUTHORITY  
OF THE COMMISSION:

*medimalanta*  
MONALISA C. DIMALANTA  
Chairperson and CEO

KTB

MABN/NVP/AJMO/LLG



**ERC CASE NO. 2023-051 RC**  
**NOTICE OF RESOLUTION/ 29 MAY 2024**  
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