

Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



IN THE MATTER OF THE
APPLICATION FOR THE
APPROVAL OF THE SALE OF
VARIOUS SUBTRANSMISSION
LINES/ASSETS WITHIN THE
FRANCHISE AREA OF DAVAO
ORIENTAL ELECTRIC
COOPERATIVE, INC. (DORECO)

ERC CASE NO. 2007-493 MC

NATIONAL TRANSMISSION
CORPORATION (TRANSCO),
Applicant.
x-----x

DOCS FILED
Date: MAR 03 2010
By: *[Signature]*

DECISION

Before the Commission for resolution is the application filed by the National Transmission Corporation (TRANSCO) on October 30, 2007 for approval of the sale of its various subtransmission lines/assets within the franchise area of Davao Oriental Electric Cooperative, Inc. (DORECO).

Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated November 13, 2007, were issued setting the case for initial hearing on December 10, 2007.

TRANSCO was directed to cause the publication of the Notice of Public Hearing, at its own expense, once (1x) in a newspaper of general circulation in

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the Philippines, at least ten (10) days before the date of the scheduled initial hearing.

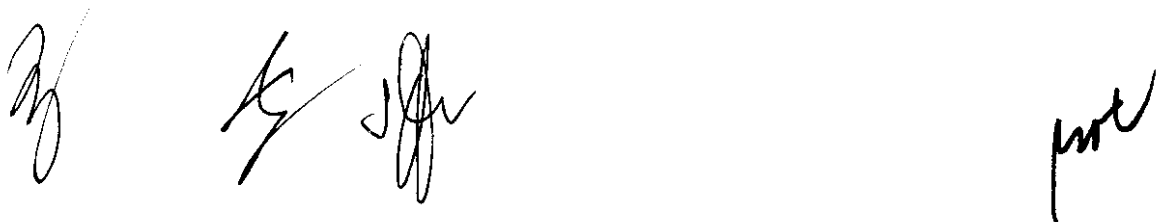
The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the aforesaid initial hearing.

Likewise, the Offices of the Mayors of Quezon City and the Municipalities within the franchise area of DORECO were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

During the December 10, 2007 initial hearing, only TRANSCO appeared. No oppositor/intervenor appeared nor was there any opposition/intervention registered.

At the said hearing, TRANSCO presented its proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "J", inclusive. The Commission noted that there were Certificates of Posting that have not been submitted by TRANSCO. TRANSCO manifested to submit the required Certificates issued by the Offices of the Mayors of the Municipalities within the franchise area of DORECO at the next scheduled hearing.

The Commission noted the following submissions made by TRANSCO:



1. The "Partial Compliance with Manifestation" and the "Motion for a Re-setting of the Hearing with Manifestation" filed on February 19, 2008; and
2. The "Motion to Suspend Proceedings with Manifestation" filed on April 3, 2008.


On November 10, 2008, the Commission issued an Order directing TRANSCO to submit the Certificates of Posting issued by the Municipalities of Cateel and Boston, Davao Oriental as proofs of its compliance with the jurisdictional requirements of the Commission.

On December 8, 2008, TRANSCO filed its "Compliance".

At the continuation of the hearing on the same date, TRANSCO and DORECO appeared. TRANSCO presented its witness, Mr. Moises Rubio, who testified in support of the application. The direct examination having been terminated, the Commission propounded clarificatory questions on the said witness and directed TRANSCO to submit various documents.

On February 6, 2009 and March 24, 2009, respectively, TRANSCO filed its "Motion to Admit Formal Offer of Documentary Evidence" and "Manifestation with Urgent Motion" praying that it be allowed to submit its compliance with the directive of the Commission before resolving the instant case with finality.

On April 7, 2009, TRANSCO submitted its "Manifestation with Urgent Motion to Admit Compliance".



On April 23, 2009, DORECO filed a letter dated April 20, 2009 requesting that the proceedings of this case be held in abeyance pending the revision of its Lease Purchase Agreement (LPA) with TRANSCO to be consistent with the Commission's *"Guidelines to the Sale and Transfer of TRANSCO's Subtransmission Assets and Franchising of Qualified Consortiums"*, as amended.

Acting thereon, on October 12, 2009, the Commission issued an Order granting the aforesaid request of DORECO.

On October 29, 2009, TRANSCO filed a "Motion for Extension of Time" praying that it be granted an additional period within which to file the Revised/Amended LPA and the details of the depreciation/appreciation. Said motion was granted by the Commission in its Order dated November 3, 2009.


On November 13, 2009, TRANSCO filed its "Compliance" including a copy of its amended LPA with DORECO.

The Commission hereby admits the said formal offer of evidence and motion to admit compliance for being relevant and material to the final resolution of this case.

DISCUSSION AND EVALUATION

A. SUBTRANSMISSION ASSETS FOR SALE TO DORECO

The following subtransmission assets are for sale to DORECO:



1. Manikling – San Isidro
69 kV Single Circuit Line
This is a single circuit line consisting of 44 structures with 336.4 MCM as line conductors and total circuit length of 4.44 kilometers. The line was energized sometime in May 2003. Boundary structure is from STR.01 to STR. 44.
2. Pintatagan – Mati 69 kV
Single Circuit Line
This is a single circuit line consisting of 376 structures with boundary structures from STR.373 to STR 744. The line uses 336.4 MCM as line conductor and total circuit length of 52.74 kilometers.
3. Pintatagan Switching
Facility
This is a mini substation equipped with a 69 kV Oil Circuit Breaker, disconnecting switches, current and potential transformers, battery (22 cells), battery charger, surge arresters for both the source side and load side, a control house with mobile generating set, protection relays and wireless remote switching and provided by a perimeter fence.

B. CLASSIFICATION OF SUBTRANSMISSION ASSETS FOR DISPOSAL

The documents submitted by TRANSCO, particularly, the single line diagram serving the franchise area of DORECO, showed that the subject assets met the technical and functional criteria that classify transmission assets and subtransmission assets in accordance with Section 4, Rule 6 of the Implementing Rules and Regulations (IRR) of Republic Act No. 9136 (R.A. 9136) and Section 2, Article III of the "Guidelines to the Sale and Transfer of the TransCo's Subtransmission Assets and Franchising of Qualified Consortiums".



C. DETERMINATION OF CONSORTIUM OR JURIDICAL ENTITY

The single line diagram of TRANSCO disclosed that DORECO is the only distribution utility directly connected to the subject subtransmission assets and thus, there is no need to form a consortium.

D. ASSESSMENT OF DORECO'S QUALIFICATION AS BUYER OF THE SUBTRANSMISSION ASSETS

1. TECHNICAL CAPABILITY

- a. It has no experience in the operation and maintenance of similar subtransmission assets operating at the same voltage level. However, it submitted a certification dated July 26, 2006 signifying its employees' willingness to undergo training under the guidance of TRANSCO personnel.
- b. It has sufficient inventory of materials that can be used for immediate replacement during emergency repair and maintenance of the line. It also submitted a "Letter of Commitment" to acquire the necessary materials upon transfer of possession of the subject assets.
- c. The details of the reliability indices it submitted disclosed that it has 7.9123 Interruption Frequency Rate (IFR) and 65.8969 hours Cumulative Interruption Time (CIT) with a combined weighted average in reliability performance of 74%. Thus, its reliability performance is less than the weighted average ceiling of 80% as set in the Guidelines.
- d. It submitted a Statement of Compliance to the Philippine Grid Code (PGC) and Philippine Distribution Code (PDC).

Based on the said submission, it can be gleaned that DORECO is technically qualified to buy the subtransmission assets of TRANSCO.



2. FINANCIAL CAPABILITY

A thorough examination of the Audited Financial Statements (AFS) of DORECO and other documents submitted disclosed that:

- a. It is current in all its financial obligations related to all contracts with its suppliers and its outstanding debt to all listed creditors.
- b. It is updated in its power bills payment issued by TRANSCO and financial obligations with the National Power Corporation (NPC). It is availing a 3% Prompt Payment Discount (PPD) on the payments of its monthly power bills.
- c. Its current ratio is 1.02:1 and quick ratio is 0.80:1 (*ratios should not be less than 0.70:1 for the current ratio and 0.50:1 for the quick ratio*), as shown by the computation below:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{59,777,423}{58,750,499} = 1.02:1$$

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}} = \frac{46,764,311}{58,750,499} = 0.80:1$$

- d. It has a debt ratio of 28% which is within the maximum limit of 80% criterion set in the Guidelines, as shown by the computation below:

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}} = \frac{105,581,088}{378,296,796} \times 100\% = 28\%$$

This means that DORECO complied with the Debt Ratio criterion.

- e. Its average collection period based on the AFS is 32 days or below the criterion set in the Guidelines which should not be more than 90 days, to wit:

$$\text{Average Collection Period} = \frac{\text{Ave. Yr. Begin \& Yr. End Receivables}}{\text{Sales / 365}} = \frac{22,317,836}{703,239} = 32$$

- f. Its net profit margin and return on assets as computed disclosed positive values and is therefore, compliant with the criterion set in the Guidelines, as shown by the computation below:



$$\text{Net Profit Margin} = \frac{\text{EBIT}}{\text{Sales}} = \frac{6,968,552}{256,682,137} \times 100\% = 3\%$$

$$\text{Return on Assets} = \frac{\text{EBIT}}{\text{Total Average Assets}} = \frac{6,968,552}{342,875,841} \times 100\% = 2\%$$

Based on the foregoing, DORECO is financially qualified to buy and operate the subtransmission assets of TRANSCO pursuant to Article IV, Section 1 of the Guidelines.

E. SUBTRANSMISSION ASSET VALUATION

TRANSCO and DORECO submitted the LPA with an agreed price amounting to Sixty-Seven Million Fifty-One Thousand Six Hundred Twenty-Seven Pesos and Twelve Centavos (PhP67,051,627.12), to wit:

Subtransmission Asset	KM Length	Number of Structures	Replacement Cost New (PhP)	Sound Value (PhP)
a) Manikling-San Isidro 69 kV Single Circuit	4.44	44	5,897,165.98	5,217,583.49
b) Pintatagan-Mati 69 kV Single Circuit	52.74	376	63,288,605.79	50,180,390.03
c) Pintatagan Switching Facility	-	-	14,376,439.00	11,653,653.60
GRAND TOTAL	57.18	420	83,562,210.77	67,051,627.12

Note: Summary of the Price based on Tripartite Valuation (Sound Value)

Since the aforesaid contract was entered into by and between TRANSCO and DORECO on June 29, 2007, the value of the subject subtransmission assets should be based on the Sinclair Knight Merz (SKM) valuation.

A renegotiated LPA was entered into by TRANSCO and DORECO on October 20, 2008 on the same assets with a revalued price amounting to Fifty-Three Million Four Hundred Ten Thousand Six Hundred Seventy-Two Pesos and Thirty Centavos (PhP53,410,672.30).

Shown below is the comparison of TRANSCO's Sound Value, Rolled Forward SKM Valuation and the agreed price:

Subtransmission Assets/ Lines	TRANSCO's Valuation (Sound Value) (PhP)	Rolled Forward SKM Valuation (ODRC) (PhP)	Agreed Price (PhP)
<i>Manikling-San Isidro Line 69 KV Single Circuit Line</i>	5,217,583.49	12,708,011.00	12,708,011.00
<i>Pintatagan-Mati 69 KV Single Circuit Line</i>	50,180,390.03	29,049,007.70	29,049,007.70
<i>Pintatagan Switching Facility</i>	11,653,653.60	-	11,653,653.60
Grand Total	67,051,627.12	-	53,410,672.30

To protect the interest of DORECO's consumers, the Commission deems it prudent to set aside TRANSCO's requirement of down payment for the sale of its subtransmission assets pursuant to Resolution No. 1, Series of 2009, entitled "A Resolution Adopting the Amendments to the Guidelines to the Sale and Transfer of TRANSCO's Subtransmission Assets and the Franchising of Qualified Consortiums".

F. CONNECTION CHARGES

On December 7, 2007, the Commission issued a Decision in ERC Case No. 2007-007 RC approving the application of TRANSCO for the approval of its Connection Charges and Residual Sub-transmission Charges for Calendar Year



2007 on the excluded services covering the existing subtransmission assets of and any future concessionaire.

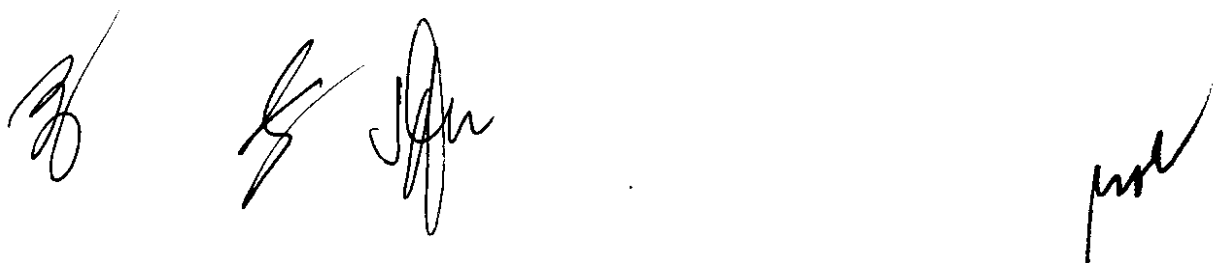
Relative thereto, DORECO's monthly connection and residual subtransmission charges amounted to PhP2,993,531.07 and PhP2,004,956.70, respectively, or a total subtransmission charge of PhP4,998,487.77.

With the acquisition of the subject subtransmission assets, DORECO shall cease from being billed the foregoing charges.

Notwithstanding the acquisition of the subtransmission assets, TRANSCO shall continue charging DORECO with the corresponding connection and residual subtransmission charges which should have been billed and recovered on the applicable service year but was deferred due to delay incurred in the imposition of the charges.

After a thorough evaluation of the documents and the testimonies of the witnesses presented herein, the Commission finds that:

- a) The subject assets for sale are subtransmission assets;
- b) DORECO is qualified to take over the responsibility of operating, maintaining, upgrading and expanding said subtransmission assets;
- c) The amount specified in the LPA is in reference to the SKM valuation and the same is found to be just and reasonable; and
- d) The provision in the LPA, particularly the requirement for a twenty percent (20%) down payment is inconsistent with the concessional financing as provided in the *Guidelines*.

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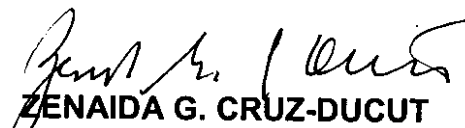
WHEREFORE, the foregoing premises considered, the application for the approval of the sale of various subtransmission lines/assets within the franchise area of Davao Oriental Electric Cooperative, Inc. (DORECO) filed by the National Transmission Corporation (TRANSCO) is hereby **APPROVED**.

TRANSCO and DORECO are hereby directed to reconsider and amend their LPA, particularly the pertinent provisions of the terms and conditions on down payment, to protect the interest of DORECO's consumers and to conform with Resolution No. 1, Series of 2009 entitled "*A Resolution Adopting the Amendments to the Guidelines to the Sale and Transfer of TRANSCO's Subtransmission Assets and the Franchising of Qualified Consortiums*".

Upon the consummation of the sale, let a copy of the corresponding Deed of Absolute Sale between TRANSCO and DORECO be furnished the Commission, for record purposes.

SO ORDERED.

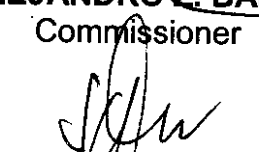
Pasig City, February 15, 2010.


ZENAIDA G. CRUZ-DUCUT
Chairperson


RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA A.R. CASTAÑEDA
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Metro Manila
6. House Committee on Energy
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7. National Electrification Administration
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Banay-banay, Davao Oriental
9. The Municipal Mayor
Caraga, Davao Oriental
10. The Municipal Mayor
Gov. Generoso, Davao Oriental
11. The Municipal Mayor
Lupon, Davao Oriental
12. The Municipal Mayor
Manay, Davao Oriental
13. The Municipal Mayor
Mati, Davao Oriental
14. The Municipal Mayor
San Isidro, Davao Oriental
15. The Municipal Mayor
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16. The Municipal Mayor
Baganga, Davao Oriental
17. The Municipal Mayor
Boston, Davao Oriental
18. The Municipal Mayor
Cateel, Davao Oriental
19. Office of the Governor
Province of Davao Oriental