

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



IN THE MATTER OF THE APPLICATION FOR APPROVAL OF THE SALE OF VARIOUS SUBTRANSMISSION LINES/ASSETS OF THE NATIONAL TRANSMISSION CORPORATION (TRANSCO) TO CEBU II ELECTRIC COOPERATIVE, INCORPORATED (CEBECO II), AS COVERED BY A LEASE PURCHASE AGREEMENT

ERC CASE NO. 2009-006 MC

NATIONAL TRANSMISSION CORPORATION (TRANSCO) AND CEBU II ELECTRIC COOPERATIVE, INCORPORATED (CEBECO II),  
Applicants.

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Date: FEB 15 2010  
By: [Signature]

**DECISION**

Before this Commission for resolution is the application filed on January 23, 2009 by the National Transmission Corporation (TRANSCO) and Cebu II Electric Cooperative, Incorporated (CEBECO II) for approval of the sale of various subtransmission lines/assets of TRANSCO within the franchise area of CEBECO II, as covered by a Lease Purchase Agreement (LPA).

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 February 2, 2009, were issued setting the case for initial hearing on March 4, 2009.

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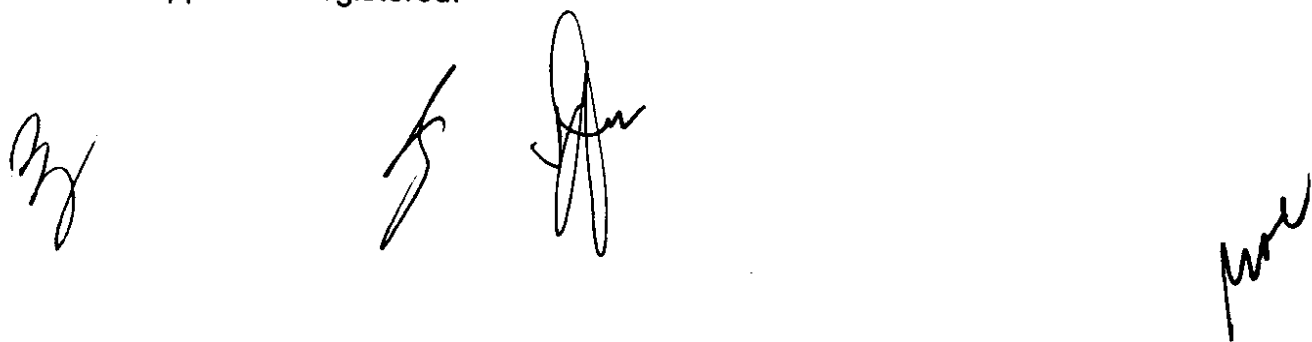
TRANSCO and CEBECO II were directed to cause the publication of the attached Notice of Public Hearing, at their own expense, once (1x) in a newspaper of general circulation in the Philippines, at least ten (10) days before the date of the scheduled initial hearing. They were also directed to inform the consumers within the franchise area of CEBECO II, by any other means available and appropriate, of the filing of the instant application, their reasons therefor and of the scheduled hearing thereon.

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 Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the initial hearing.

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

On February 27, 2009, TRANSCO and CEBECO II filed their "*Pre-Trial Brief*".

During the March 4, 2009 initial hearing of this case, only TRANSCO and CEBECO II appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.





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At the said hearing, TRANSCO and CEBECO II presented their proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "V", inclusive. Thereafter, they conducted an expository presentation, for the benefit of the consumers and other concerned parties, on what the application was all about and the reasons and justifications cited in support thereof.

TRANSCO and CEBECO II then presented the following witnesses: a) Mr. Noel S. Ymasa, TRANSCO's Corporate Staff Officer for Subtransmission Divestment Department, who testified, among others, on the technical and financial capability of CEBECO II to purchase the subject subtransmission assets; b) Mr. Peter Alan B. Señeres, CEBECO II's General Manager, who testified, among others, on the provisions of the LPA particularly the significant features thereof, CEBECO II's financial and technical capability and, the economic benefits that may be derived in acquiring the subtransmission assets. In the course of their respective direct examinations, the witnesses identified various documents in support of the application which were duly marked as exhibits.

The direct examinations having been terminated, the Commission propounded clarificatory questions on the said witnesses. TRANSCO and CEBECO II were directed to file their formal offer of evidence.

On March 18, 2009, TRANSCO and CEBECO II filed their "Formal Offer of Evidence" which is hereby admitted for being relevant and material to the final resolution of the case.

## DISCUSSION AND EVALUATION

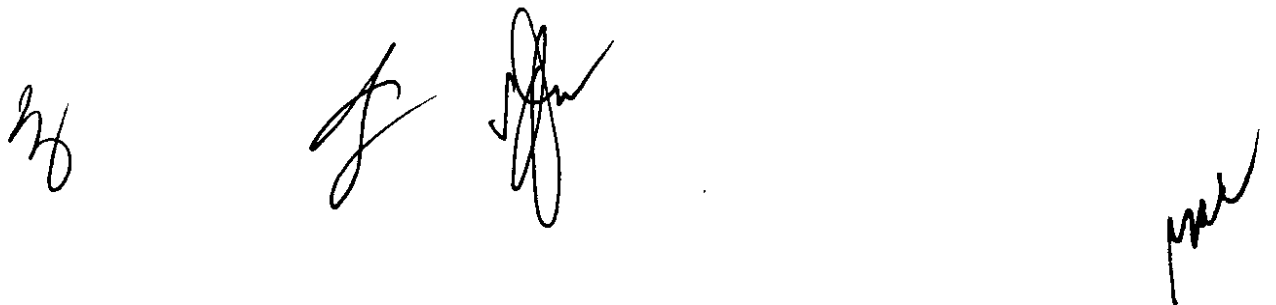
### A. Subtransmission Assets for Sale to CEBECO II

The following subtransmission assets are for sale to CEBECO II:

Subtransmission Assets	Description
Compostela-Danao	69 kV Line, 10.70 km.
Danao-Lugo	69 kV Line, 31.70 km.
Lugo-Medellin	69 kV Line, 33.90 km.

### B. Classification of Subtransmission Asset for Disposal

The documents submitted by TRANSCO, particularly the single line diagram serving the franchise area of CEBECO II, showed that the subject assets met the technical and functional criteria that classify transmission assets and sub-transmission assets pursuant to 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 Sub-transmission Assets and Franchising of Qualified Consortiums".

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**C. Determination of Consortium or Juridical Entity**

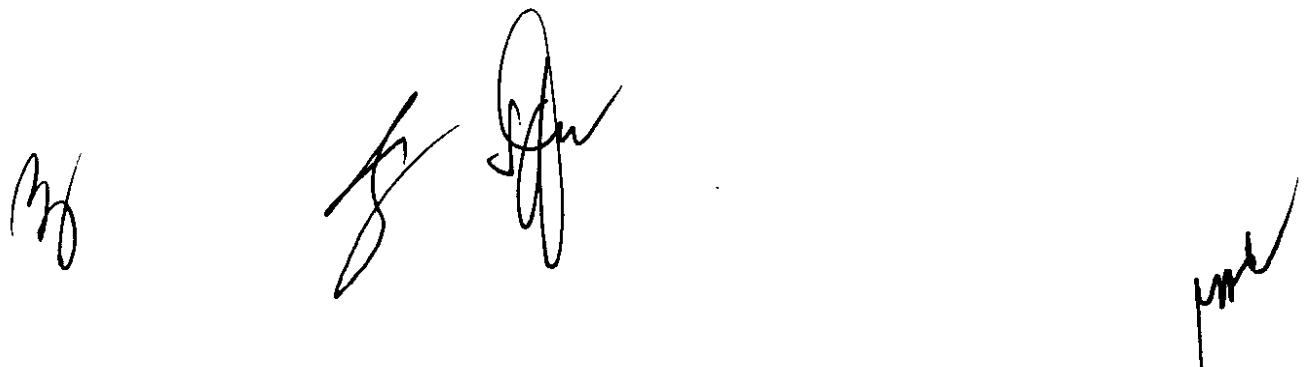
On the basis of the single line diagram submitted by TRANSCO, it was disclosed that CEBECO II is the only distribution utility directly connected to the subject subtransmission assets.

**D. Assessment of CEBECO II's Qualification as Buyer of the Subtransmission Assets**

**I. Technical Capability**

- a. CEBECO II has experience in the operation and maintenance of similar subtransmission assets. It has an existing inventory of materials for immediate replacement during emergency repair and maintenance;
- b. It has 1.21 Interruption Frequency Rate (IFR) and 110.14 hours of Cumulative Interruption Time (CIT). The 1.21 IFR and 110.14 CIT translates to a combined weighted average Reliability Performance of 100.32% which is higher than the weighted average ceiling of eighty percent (80%), as prescribed in the Guidelines. To improve its performance, it filed the "Outages Reduction Plan for 2009"; and
- c. It submitted its Statements of Compliance to the Philippine Grid Code (PGC) and Philippine Distribution Code (PDC).

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

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## II. Financial Capability

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

- a. It is current in all its financial obligations related to all contracts with suppliers, and debt to all creditors.
- b. Its current ratio is 1.51 and its quick ratio is 1.23 (*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:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{178,449,478}{117,975,618} = 1.51:1$$

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}} = \frac{145,665,655}{117,975,618} = 1.23:1$$

- c. It has a debt ratio of 42.77% which is within the maximum limit of 80% set in the Guidelines, as shown below:

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}} = \frac{149,517,833}{349,565,990} \times 100\% = 42.77\%$$

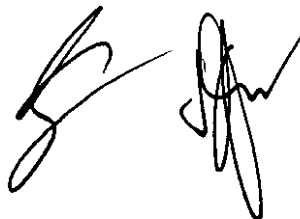
- d. Its average collection period based on its submitted AFS is 32.76 days or below the criterion set in the *Guidelines* which should not be more than ninety (90) days, as shown in the computation below:

$$\text{Average Collection Period} = \frac{\text{Average Receivables}}{\text{Sales}/365} = \frac{66,106,553}{2,017,984} = 32.76 \text{ days}$$

- e. Its net profit margin and return on assets as computed disclosed positive values and are therefore, compliant with the criterion set in the *Guidelines*.

$$\text{Net Profit Margin} = \frac{\text{EBIT}}{\text{Sales}} = \frac{18,100,381}{680,192,285} \times 100\% = 2.66\%$$

$$\text{Return on Assets} = \frac{\text{EBIT}}{\text{Total Average Assets}} = \frac{18,100,381}{326,364,701} \times 100\% = 5.55\%$$



Based on the foregoing, CEBECO II has demonstrated its financial capability to acquire the subject subtransmission assets.

**E. Subtransmission Asset Valuation**

TRANSCO and CEBECO II submitted the LPA with an agreed price to be paid by CEBECO II amounting to Forty-Two Million Four Hundred Ninety Thousand Six Hundred Fifty-Three Pesos (PhP42,490,653.00).

It is significant to note that in their original agreement, TRANSCO and CEBECO II have agreed on a price based on Sound Value (SV) using the formula of Replacement Cost New (RCN) multiplied by the Condition Factor (CF). Said formula did not reflect the best estimates of the asset values. Thus, TRANSCO and CEBECO II submitted an "Amended Agreement" indicating the agreed price consistent with the SKM valuation amounting to PhP42,490,653.00, which is lower than the previous purchase price of PhP61,267,728.93.

Further, the agreed price is the salvage value of the assets having reached their economic life. Shown below is the valuation of the subtransmission assets including *SKM's 2008 Rolled-Forward* valuation:



ASSETS	YEAR ENERGIZED	AGREED PRICE	2006 SKM VALUATION	2008 ROLLED-FORWARD VALUATION
Compostela-Danao line	1979	6,768,377.00	6,768,000.00	6,899,976.00
Danao-Lugo line	1981	18,303,022.00	18,303,000.00	19,971,152.00
Lugo-Medellin line	1981	17,419,254.00	17,419,000.00	17,864,044.00
<b>Total (PhP)</b>		<b>42,490,653.00</b>	<b>42,490,000.00</b>	<b>44,735,172.00</b>
<b>Difference from Agreed Price (PhP)</b>			<b>(653.00)</b>	<b>2,244,519.00</b>

Notwithstanding the adjustments on the 2008 SKM values, Resolution No. 18, Series of 2009 (*A Resolution Clarifying Resolution No. 01, 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*) provides that the SKM valuation shall be the reference value of the subtransmission assets which should not be considered as limitation to the capability of the distribution utility to negotiate for better terms and conditions for the benefit of their consumers.

**F. Connection and Residual Subtransmission Charges**

Subject to the terms and conditions of the LPA, TRANSCO shall cease to bill CEBECO II the corresponding connection and/or residual subtransmission charges once the ownership of the subject subtransmission assets has been transferred to the latter.

Notwithstanding the transfer of ownership of the assets, TRANSCO shall continue charging CEBECO II with the corresponding connection and/or residual

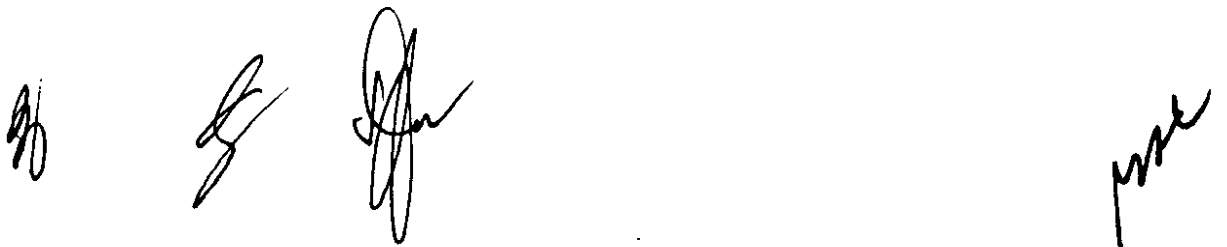
subtransmission charges which should have been billed and recovered on the applicable service year but were deferred due to the delay incurred in the imposition of the said charges.

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

- a. The subject lines for sale are subtransmission assets;
- b. CEBECO II passed the requirements of the criteria established in Section 2, Article IV of the *Guidelines*;
- c. CEBECO II is qualified to take over the responsibility of operating, maintaining, upgrading and expanding said subtransmission assets;
- d. The amount specified in the LPA is in reference to the SKM valuation and the same is found to be just and reasonable; and
- e. The provision in the said LPA, particularly the requirement for a twenty percent (20%) down payment, is inconsistent with the concessional financing as provided in the *Guidelines*.

**WHEREFORE**, the foregoing premises considered, the application for approval of the sale of various subtransmission lines/assets of TRANSCO within the franchise area of CEBECO II, as covered by a Lease Purchase Agreement, filed by the National Transmission Corporation (TRANSCO) and Cebu II Electric Cooperative, Inc. (CEBECO II) is hereby **APPROVED**.

However, TRANSCO and CEBECO II are hereby directed to reconsider and amend their Lease Purchase Agreement (LPA), particularly the pertinent provisions of the terms and conditions on down payment, to protect the interest of CEBECO II's consumers and to conform with Resolution No. 1, Series of 2009, entitled "A Resolution Adopting the Amendments to the *Guidelines to the*

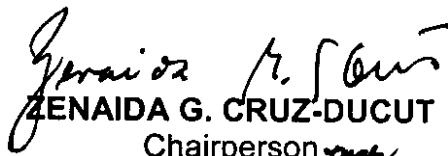


*Sale and Transfer of TRANSCO's Subtransmission Assets and the Franchising of Qualified Consortiums".*

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

**SO ORDERED.**

Pasig City, February 8, 2010.

  
**ZENAIDA G. CRUZ-DUCUT**  
Chairperson *gucut*

  
**RAUF A. TAN**  
Commissioner

  
**ALEJANDRO Z. BARIN**  
Commissioner

  
**MARIA TERESA A.R. DASTAÑEDA**  
Commissioner

  
**JOSE C. REYES**  
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7. **House Committee on Energy**  
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8. **Office of the City Mayor**  
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Carmen, Cebu
11. **Office of the Municipal Mayor**  
Compostela, Cebu
12. **Office of the Municipal Mayor**  
Daan-Bantayan, Cebu
13. **Office of the Municipal Mayor**  
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