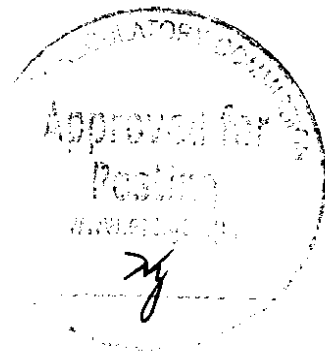


Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
San Miguel Avenue, Pasig City



IN THE MATTER OF THE  
APPLICATION FOR THE  
APPROVAL OF THE SALE OF  
VARIOUS SUBTRANSMISSION  
LINES / ASSETS WITHIN THE  
FRANCHISE AREA OF MISAMIS  
OCCIDENTAL II ELECTRIC  
COOPERATIVE, INC. (MOELCI II)

ERC CASE NO. 2007-458 MC

NATIONAL TRANSMISSION  
CORPORATION (TRANSCO),

Applicant.

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D O C K E T E D  
Date: SEP 30 2008  
By: [Signature]

**DECISION**

Before this Commission for resolution is the application filed by the National Transmission Corporation (TRANSCO) on August 13, 2007 for approval of the sale of its various subtransmission lines/assets within the franchise area of Misamis Occidental II Electric Cooperative, Inc. (MOELCI II).

Having found said application sufficient in form and in substance and with the required fees having been paid, an Order and a Notice of Public Hearing, both dated August 14, 2007 were issued setting the case for hearing on October 1, 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 the Philippines, at least ten (10) days before the date of the scheduled initial hearing.

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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.

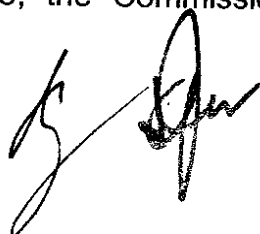
Likewise, the Offices of the Mayors of Quezon City and the Cities/Municipalities within the franchise area of MOELCI II were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On October 1, 2007, TRANSCO filed its "Partial Compliance" while on October 2, 2007, it filed its "Pre-Trial Brief".

During the initial hearing on October 1, 2007, only TRANSCO appeared. No oppositor/intervenor appeared nor was there any opposition/intervention registered.

At the said hearing, TRANSCO presented its partial proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "F" and "CC", inclusive. Thereafter, it moved for continuance of hearing considering that it failed to submit certifications of posting from the different Municipalities of the franchise area of MOELCI II. Said motion was granted and the hearing was reset to October 10, 2007.

On October 9, 2007, TRANSCO filed a "Manifestation with Motion to Reset Hearing". Relative thereto, the Commission issued an Order dated



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October 16, 2007 granting said motion and resetting hearing to October 24, 2007.

During the October 24, 2007 hearing, TRANSCO manifested that it filed a "Manifestation" on even date submitting proofs of compliance with the jurisdictional requirements of the Commission.

At the continuation of the hearing on November 15, 2007, TRANSCO and MOELCI II appeared. In the said hearing, TRANSCO presented its witnesses, Engr. Amador M. Dableo, its Principal Engineer A, who testified on TRANSCO's compliance with the technical divestment requirements and Mr. Andreo O. Estrellado, its Corporate Staff Officer – Subtransmission Divestment Department, who testified on the qualifications of the MOELCI II to acquire the subject subtransmission assets. In the course of the direct examination, various documents were identified and marked as exhibits.

During the January 14, 2008 hearing, TRANSCO appeared and presented its last witness, Ms. Dina O. Dizon, its Department Manager, Strategic Planning Division, who testified in support of the application. In the course of the direct examination, various documents were again identified and marked as exhibits. At the termination of the direct examination, the Commission propounded clarificatory questions.

On August 29, 2008, TRANSCO filed its "Compliance" attaching therewith its "Formal Offer of Evidence" which is hereby admitted for being relevant and material to the final resolution of this application.



## DISCUSSION AND EVALUATION

### A. SUBTRANSMISSION ASSET FOR SALE TO MOELCI II:

#### Ozamis 13.8kV Tie Line:

- a. Length – 8.56 km.
- b. Number of Structures – 34
- c. Size of Conductor Used – 336.4 MCM<sup>1</sup>

### B. CLASSIFICATION OF SUBTRANSMISSION ASSET FOR DISPOSAL:

The documents submitted by TRANSCO, particularly, the single line diagram serving the franchise area of MOELCI II, showed that the subject asset met the technical and functional criteria that distinguish transmission assets from subtransmission assets as established in Section 4, Rule 6 of the Implementing Rules and Regulations (IRR) of Republic Act No. 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 WHETHER A CONSORTIUM OR JURIDICAL ENTITY SHOULD BE FORMED:

The documents submitted by TRANSCO, such as the single line diagram of the subject subtransmission asset, showed that MOELCI II is the only distribution utility directly connected thereto. Thus, there is no need to form a consortium or juridical entity.

### D. ASSESSMENT OF MOELCI II'S QUALIFICATION AS BUYER OF THE SUBTRANSMISSION ASSET:

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<sup>1</sup> MCM – Mega Circular Mill

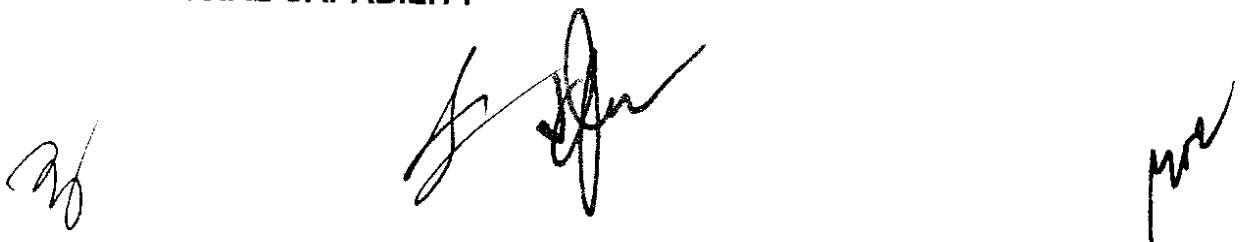


## 1. TECHNICAL CAPABILITY

- a. MOELCI II has more than one (1) year of experience in the operation and maintenance of similar subtransmission assets operating at the same voltage level.
- b. MOELCI II has no existing inventory of materials for immediate replacement during emergency repair and maintenance of the line but it is willing to invest in the required materials as stated in the Certification dated November 30, 2004 issued by its General Manager.
- c. MOELCI II's Interruption Frequency Rate (IFR) is 7.297 and its Cumulative Interruption Time (CIT) is 126.051 hours. These make the reliability performance of MOELCI II to be 213.03% which is more than the weighted average ceiling of 80% as set in the Guidelines. MOELCI II is not compliant with the requirement of the Guidelines but it undertook to address this concern.
- d. Records of the Commission revealed that MOELCI II has submitted its Statement of Compliance to the Philippine Grid Code (PGC) and Philippine Distribution Code (PDC) which makes it compliant with the qualification criteria stating that a prospective buyer "should have submitted to the ERC its Statement of Compliance to the Philippine Grid Code and Philippine Distribution Code."
- e. The Commission's evaluation of MOELCI II's Statement of Compliance and Compliance Plan to the PGC and PDC showed that it is not in full compliance with DSC-PGC-019 (Maintenance Program), DSC-PDC-038 (Maintenance Program), but has submitted definite compliance plans and schedules to complete the requirements. MOELCI II was found to be in full compliance with nine (9) other requirements of the PGC and PDC, which makes it compliant with the qualification criteria stating that a prospective buyer "should be in full compliance with DSC-PGC-019 (Maintenance Program) and DSC-PDC-038 (Maintenance Program) and at least two other requirements of the PGC and PDC."

Thus, it can be said that MOELCI II is technically qualified to buy the subtransmission asset of TRANSCO pursuant to Article IV, Section 1 of the Guidelines.

## 2. FINANCIAL CAPABILITY



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

- a. MOELCI II is current in all its financial obligations related to all contracts with suppliers of inputs necessary for its provision of electricity service to its End-Users.
- b. MOELCI II is current in all its financial obligations related to outstanding debt to all listed creditors.
- c. MOELCI II's current ratio is 2.28 and its quick ratio is 2.02 (*ratios should not be less than 0.80:1 for current ratio and 0.70:1 for the quick ratio*), as shown by the computation below:

$$\begin{aligned} \text{Current Ratio} &= \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{104,244,676}{45,641,987} = 2.28 \\ \text{Quick Ratio} &= \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}} = \frac{91,971,682}{45,641,987} = 2.02 \end{aligned}$$

- d. MOELCI II has a debt ratio of not more than 70% which passed the criterion set in the Guidelines, as shown by the computation below:

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}} = \frac{196,193,365}{301,143,634} = 65\%$$

This means that MOELCI II complied with the Debt Ratio criterion.

- e. The average collection period of MOELCI II based on its submitted AFS is 47 days or within the criterion set in the Guidelines which should not be more than 60 days, as shown by the computation below:

$$\text{Average Collection Period} = \frac{\text{Average Receivables}}{\frac{\text{Total Revenue}}{365}} = \frac{54,595,192}{1,167,390} = 47$$

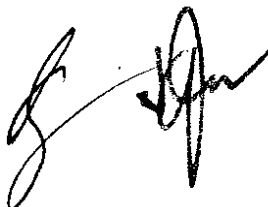
- f. MOELCI II's net profit margin and return on assets as computed disclosed positive values which mean that it passed the criteria set in the Guidelines, as shown by the computation below:

$$\text{Net Profit Margin} = \frac{\text{EBIT}^2}{\text{Sales}} = \frac{28,547,591}{426,097,317} = 6.70\%$$

$$\text{Return on Assets} = \frac{\text{EBIT}}{\text{Total Average Assets}} = \frac{28,547,591}{285,767,471} = 9.99\%$$

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<sup>2</sup> Earnings Before Interest and Taxes



Thus, it can be said that MOELCI II is financially qualified to buy and operate the sub-transmission asset of TRANSCO pursuant to Article IV, Section 1 of the Guidelines.

## E. SUB-TRANSMISSION ASSET VALUATION

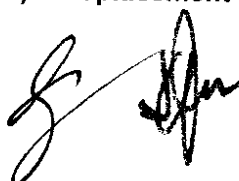
### i. Selling Price of the Sub-transmission Asset

The valuation agreed upon by TRANSCO and MOELCI II based on sound value is Four Million Two Hundred Forty-Nine Thousand Six Hundred Sixty-Six Pesos and Forty-Five Centavos (Php4,249,666.45). The inspection and inventory particular to the condition rating of the asset and the derived replacement cost new, served as inputs in the determination of the re-appraised sound value. The sound value does not include Right of Way (ROW) cost.

The following were the steps undertaken by TRANSCO in the Valuation Process:

- a) The inspection of the subtransmission lines was done per structure. Inspections were conducted by the representatives of TRANSCO, MOELCI II and COA. A Line Inspection Report, indicating the details of each structure which was tabulated in Condition Rating Forms, also specifies the condition rating of each structure. The inspection report, which was signed by the representatives of TRANSCO, MOELCI II, and COA, was later on submitted to the TRANSCO Subtransmission Divestment Department (SDD).
- b) The SDD computed the standard cost of the subtransmission asset or structure using the replacement cost new based on estimates provided by the TRANSCO Engineering Group. The computed standard costs served as the estimate for the replacement cost new of the asset.
- c) The sound value of the asset was determined using the following formula:

$$\text{Sound Value (SV)} = \text{Replacement Cost New} \times \text{Condition Factor}$$



The formula for sound value in the computation of the selling price of the subtransmission asset was approved by the Joint Congressional Power Commission (JCPC) on November 18, 2003 (per TRANSCO Board Resolution No. TC 2003-067 dated November 28, 2004).

The formula reflects the value of the asset based on re-appraised sound value with consideration on the cost of replacing the asset with a new one, and its actual physical and operating conditions.

- d) Since the valuation is based only on the standard costs and the condition factors, the sale price will only change if the standard costs or condition factors are revised. In case of disagreements on the condition factors established during the process of inspection and inventory, a re-inspection of the structures under dispute has to be conducted

**ii. Revenue Potential**

The Commission conducted the disposal value of the subtransmission asset based on the revenue potential of such asset.

The potential revenue is interpreted as the total benefit foregone by TRANSCO in selling the subtransmission asset to a qualified distribution utility (DU). Potential Revenue is entirely dependent on the approved value of the asset when setting the rates. The rates that are set determine the revenue streams.

It is worth mentioning that the appraised value of TRANSCO's asset was not determined by TRANSCO alone, but rather, it was determined by both parties in the presence of COA and since the Lease Purchase Agreement was entered into by both parties on September 11, 2006, it can be concluded that the

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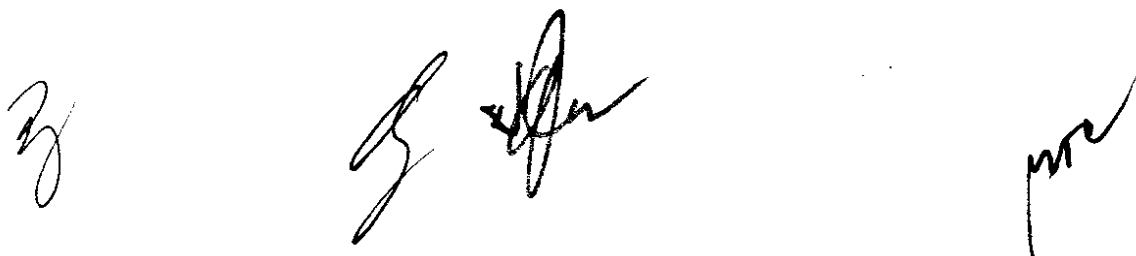
agreed purchase price was the best estimate and representation of potential revenue then.

**F. TERMS OF PAYMENT**

Under the terms of the Contract to Sell, MOELCI II shall pay TRANSCO, in cash or in the form of manager's or cashier's check, the amount of **Eight Hundred Forty Nine Thousand Nine Hundred Thirty-Three Pesos and Twenty-Nine Centavos (PhP849,933.29)** which is **twenty percent (20%)** of the total Purchase Price. The remaining balance of **eighty percent (80%)** of the total Purchase Price equivalent to **Three Million Three Hundred Ninety-Nine Thousand Seven Hundred Thirty-Three Pesos and Sixteen Centavos (PhP3,399,733.16)** shall be paid in two (2) years in twenty-four (24) equal monthly installments. This financing scheme was approved by TRANSCO under *Resolution No. TC 2004-31*.

**G. CONNECTION CHARGES**

On December 7, 2007, the Commission issued a Decision in ERC Case No. 2007-007 RC entitled *"In the Matter of the Application for the Approval of Connection Charges and Residual Sub-transmission Charges for Calendar Year 2007 on the Excluded Services Covering the Existing Sub-transmission Assets of the National Transmission Corporation (TransCo) and any Future Concessionaire Thereof, with Prayer for Provisional Authority"*. In the said Decision, there was no monthly connection charge for the subject asset for sale to be paid by MOELCI II.



## H. ANALYSIS

The valuation agreed upon by TRANSCO and MOELCI II is PhP4,249,666.45. Said valuation price was conducted jointly by the TRANSCO District Office, MOELCI II and COA and was based on a certain formula which considers a condition factor.

In order to avoid windfall gain on the part of MOELCI II, the approved selling price shall be the regulatory value of the subject subtransmission asset. Moreover, the subtransmission asset shall not be subject to any appraisal increase in the future unless the utility has invested for its upgrading or refurbishment to extend the life or improve the performance of the asset.

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

- a) The subject line for sale is a subtransmission asset;
- b) MOELCI II is qualified to take over the responsibility of operating, maintaining, upgrading and expanding said subtransmission asset; and
- c) The purchase price of the subject sub-transmission asset is fair and reasonable.

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




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

Further, MOELCI II is hereby directed to submit, within thirty (30) days from receipt hereof, its plan to comply with the reliability performance standard.

**SO ORDERED.**

Pasig City, September 22, 2008.

  
**ZENAIDA G. CRUZ-DUCUT**  
Chairperson

  
**RAUF A. TAN**  
Commissioner

  
**ALEJANDRO Z. BARIN**  
Commissioner

(On Official Travel)  
**MARIA TERESA A.R. CASTAÑEDA**  
Commissioner

  
**JOSE C. REYES**  
Commissioner

**Copy furnished:**

1. **National Transmission Corporation (TRANSCO)**  
Power Center, Quezon Avenue corner BIR Road  
Quezon City
2. **Misamis Occidental II Electric Coop., Inc. (MOELCI II)**  
Tudela, Misamis Occidental
3. **Office of the Solicitor General**  
134 Amorsolo Street, Legaspi Village  
1229 City of Makati
4. **Commission on Audit**  
Commonwealth Avenue  
Quezon City 1121
5. **Senate Committee on Energy**  
GSIS Building, Roxas Boulevard  
Pasay City 1300
6. **House Committee on Energy**  
Batasan Hills, Quezon City 1126
7. **Municipal Mayor**  
Tudela, Misamis Occidental
8. **Municipal Mayor**  
Bonifacio, Misamis Occidental
9. **Municipal Mayor**  
Gimenez, Misamis Occidental
10. **Municipal Mayor**  
Anaon, Misamis Occidental
11. **Municipal Mayor**  
Inacaban, Misamis Occidental
12. **City Mayor**  
Ozamis City
13. **City Mayor**  
Tangub City