

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

**GUIDELINES TO GOVERN THE SUBMISSION, EVALUATION AND APPROVAL OF
ELECTRIC POWER TRANSMISSION AND DISTRIBUTION CAPITAL PROJECTS**

Pursuant to Section 43 of Republic Act No. 9136 otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), Rules 6 and 7 of its Implementing Rules and Regulations, Section 8 of ERB Resolution No. 95-21, as amended, and Section 20 (b) of Commonwealth Act No. 146, as amended, the Energy Regulatory Commission (ERC) hereby adopts and promulgates the following Guidelines to Govern the Submission, Evaluation and Approval of Electric Power Transmission and Distribution Capital Projects.

ARTICLE I

GENERAL PROVISIONS

Section 1. Objectives – This Guidelines shall have the following objectives:

1. To provide the transmission company and distribution utilities with a uniform system for filing applications for the approval of electric power capital projects;
2. To ensure and accelerate total electrification of the country;
3. To ensure the quality, reliability, security and affordability of supply of electric power and in compliance with the Philippine Grid Code and the Philippine Distribution Code ;
4. To protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
5. To promote a policy of full disclosure of transactions that concern public interest and;
6. To ensure that the procurement of equipment and materials are transparent and complies with the Government Procurement Act, R.A. No. 9184, and accepted industry practices and standards.

Section 2. Guiding Principles – Article 6.3 of the PGC and Article 6.3 of the PDC directed the Grid Owner and the Distributors to conduct transmission and distribution planning studies for the preparation and evaluation of transmission and distribution system reinforcement projects and for the preparation of the transmission and distribution development plans. TransCo is mandated to prepare the Transmission Development Plan (TDP) for its submission to the DOE for integration with the Power Development Program (PDP) and the Philippine Energy Plan (PEP). Similarly, Distribution Utilities are mandated to prepare and submit their annual 5-year Distribution Development Plans to the DOE. Individual development projects found within the TDP and the DDP shall be reviewed by the ERC.

Any plan for expansion or improvement of transmission and distribution facilities shall be reviewed and approved by the ERC to ensure that the contracting and procurement of the equipment, assets and services have been subjected to transparent and competitive procurement and purchasing processes to protect public interest.

Section 3. Scope of Application – This Guidelines shall apply to all electric power Transmission and Distribution Utilities, including but not limited to the following:

1. National Transmission Corporation (TransCo);
2. Electric cooperatives;
3. Privately-owned distribution utilities;
4. Local government unit owned-and-operated distribution systems;
5. Entities duly authorized to operate within the economic zones; and
6. Other duly authorized entities engaged in the distribution of electricity.

Section 4. Definition of Terms – The following words and phrases shall have the following respective meanings:

a) “Department of Energy or DOE” shall refer to the government agency created pursuant to Republic Act No. 7638 whose expanded functions are provided in the Act;

b) “Distribution Code” shall refer to a compilation of rules and regulations governing electric utilities in the operation and maintenance of their distribution systems which includes among others, the standards for service and performance, and defines and establishes the relationship of the distribution systems with the facilities or installations of the parties connected thereto;

c) “Distribution Development Plan” shall refer to the five-year development plan submitted by the distribution utilities to the DOE not later than the fifteenth (15th) of March of every year, pursuant to Section 23 of R.A. No. 9136 and Rule 7, Section 4(p) of its IRR. In the case of electric cooperatives, such plans shall be submitted through the NEA for review and consolidation, in preparation of the National Electric Cooperatives Distribution Development Plan.

d) “Distribution Management Committee (DMC)” shall refer to the committee established by the ERC to monitor the implementation of the Distribution Code and to perform other functions mentioned in Section 2.2.1 of the Distribution Code.

e) “Distribution System” shall refer to the system of wires and associated facilities belonging to a franchised distribution utility, extending between the delivery points on the transmission, subtransmission system, or generating plant connection and the point of connection to the premises of the end-user.

f) “Distribution Utility” shall refer to any electric cooperative, private corporation, government-owned utility, or existing local government unit that has an exclusive franchise to operate a distribution system.

g) “Economic Zone (EZ)” shall refer to the selected areas which are being developed into agro-industrial, industrial, tourist, recreational, commercial, banking, investment and financial centers. An EZ may refer to any of the following: Industrial Estates, Export Processing Zones, Free Trade Zones, Information Technology Parks and Tourist/Recreational Centers, such as but not limited to, those managed, administered, or operated by the Bases Conversion Development Authority (BCDA), Cagayan Economic Zone Authority (CEZA), Clark Development Corporation (CDC), Subic Energy Zone (SEZ), Philippine Economic Zone Authority (PEZA), Phividec Industrial Authority (PIA), and Zamboanga City Economic Zone Authority (ZCEZA).

h) “Electric Cooperative” shall refer to a distribution utility organized pursuant to Presidential Decree No. 269, as amended or as otherwise provided in Republic Act No. 9136.

i) “Electric Utility” shall refer to all electric power Transmission and Distribution Utilities as stated in Section 3 of Article 1 of this Guidelines.

j) “Grid” shall refer to the high-voltage backbone system of interconnected transmission lines, substations, and related facilities.

k) “Grid Code” shall have the same meaning as “Philippine Grid Code.”

l) “Grid Management Committee (GMC)” shall refer to the committee established by the ERC to monitor the implementation of the Grid Code and to perform other functions mentioned in Section 2.2.1 of the Grid Code.

m) “Grid Owner” shall refer to the party that owns the high-voltage backbone transmission system and is responsible for maintaining adequate grid capacity in accordance with the provisions of the Grid Code.

n) “National Transmission Corporation (TransCo)” shall refer to the corporation organized pursuant to Republic Act 9136 to acquire all the transmission assets of the National Power Corporation. When used in this Guidelines, it shall also refer to the Buyer or Concessionaire or assignee of Transco.

o) “Person” shall refer to a natural or juridical person, as the case may be.

p) “Philippine Distribution Code (PDC)” shall refer to the set of basic rules, requirements, procedures, and standards to ensure the safe, reliable, secured and efficient operation, maintenance, and development of the distribution systems in the Philippines. It also defines and establishes the technical aspects of the working relationship of the Distributors and all users of the distribution system.

q) “Philippine Energy Plan (PEP)” shall refer to the overall energy program formulated and updated yearly by the DOE and submitted to Congress pursuant to Republic Act No. 7638.

r) “Philippine Grid Code (PGC)” shall refer to the set of basic rules, requirements, procedures, and standards that will ensure the safe, reliable, secured and efficient operation, maintenance, and development of the high-voltage backbone transmission system in the Philippines. It identifies and recognizes the responsibilities and obligations of the Grid Owner, System Operator, and the Market Operator.

s) “Power Development Program (PDP)” shall refer to the indicative plan for managing electricity demand through energy-efficient programs and for the upgrading, expansion, rehabilitation, repair, and maintenance of power generation and transmission facilities, formulated and updated yearly by the DOE in coordination with the generation, transmission, and distribution utility companies.

t) **“Transmission Development Plan (TDP)”** shall refer to the program for managing the transmission system through efficient planning for its expansion, upgrading, rehabilitation, repair, and maintenance, to be formulated by DOE and implemented by TRANSCO or its buyer or concessionaire.

u) **“Transmission System”** shall have the same meaning as “Grid.”

Section 5. Classification of Capital Projects – Capital Projects are classified into three (3) categories:

a) **Major Capital Projects** – are projects that are larger in scale in terms of the nature and scope of work and involve several inter-related activities, including the construction, upgrading, extension or installation of new and/or of existing major transmission / sub-transmission facilities, distribution systems and substations; systems control, protection, metering and communication facilities, that are necessary to improve the reliability, adequacy and efficiency of the electric transmission and distribution system, as the case maybe.

All Major Capital Projects to be implemented in a given year shall be consistent with the TDP and DDP and shall have been submitted for the ERC’s approval not later than the 31st day of August of the previous year.

Application for approval of Major Capital Projects shall be acted upon by the ERC within 120 calendar days; otherwise, it is deemed that the application shall have been approved.

b) **Minor Capital Projects** – are projects and activities needed in providing and maintaining service to customers including but not limited to replacement of rotten poles, repair of pole-line hardware and attachments, utility vegetation control and management, execution of minor projects and activities brought about by actions of government and private entities, and unforeseen problems and device failures in the electric distribution system.

Minor Capital Projects shall not require the approval of the ERC but shall be submitted for monitoring purposes not later than the 30th day of September of the current year together with the following information: (1) Project Description; (2) Justification for the Project; (3) Detailed Cost Estimates; and (4) Proposed Project Schedule.

- c) **Emergency Capital Projects** – are projects that require immediate action in order to maintain safe, reliable, secured and efficient operation of the power system.

The Electric Utility shall inform the ERC in writing within 30 calendar days upon implementation of Major Emergency Capital Projects and shall include the (a) Project Costs and (b) Project Schedule.

The Electric Utility shall file an application for approval within 30 calendar days after completion of Major Emergency Capital Projects.

ARTICLE II

APPLICATIONS AND REQUIREMENTS

Section 1. Application for Major Capital Projects – The application, duly verified by the representative of TRANSCO or Distribution Utility, as the case may be, for the approval of any Major Capital Project shall be filed with the ERC together with properly labeled three (3) hard and electronic copies of the following data / information and a checklist of requirements:

1. Description of the Project;
2. Justifications for the Project;
(Include the adverse effects of the non-implementation of the proposed Project(s) and impact or benefits of the proposed Project(s) on the system);
3. Options / Alternatives considered in lieu of the proposed Project(s);
4. 5-year Historical and Forecast Planning Data;
5. Technical Analysis (Simulation and/or Computation);
6. Projected Financial & Economic Cost Analysis;
 - i. Impact / effect on rate base of the proposed Project(s);
 - ii. Net Present Value, Internal Rate of Return and Benefit/Cost Ratio analysis (include analysis for the alternatives);

- iii. Leverage, Liquidity, Efficiency and Profitability Ratios for the two most recent 12-month periods (include Return on Equity and Working Capital Ratio);
 - iv. Major assumptions used in estimating benefits and expenses to be obtained and incurred during the lifetime of the project;
7. Front-End Engineering Design and Drawings (sufficient to conduct bidding);
 8. Project Cost Estimates (Equipment, Materials, Installation/Construction, Testing & Commissioning, Feasibility & Engineering Design);
 9. Project Financing Plan (i.e. amount and sources of financing);
 10. Proposed Gantt Chart Schedule;
 11. Board resolution approving the proposed Project(s);
 12. Agency / Instrumentality Approvals (when applicable);
 13. Plan for Right-Of-Way Acquisition (when applicable);
 14. DOE certification that the proposed projects are consistent with the TDP / DDP;
 15. Results of the competitive bidding and procurement process conducted including the proposals of all suppliers and/or contracts (when available)

Section 2. Reportorial Requirements - Upon the ERC's approval of the Major Capital Projects, TRANSCO and the Distribution Utilities, as the case may be, shall submit regular progress reports and actual project costs. The frequency of submission of the said reports shall be determined by the ERC taking into consideration the project timetable.

Any change in the engineering design, specifications and bill of materials during the implementation of the project has to be submitted to the ERC for approval.

A cumulative increase of 10% or more of the proposed budget which cannot be absorbed by the allocated contingency during the implementation of the project has to be reported to the ERC.

Section 3. The Electric Utility shall submit to the ERC a written report, together with justifications, if it decides to defer or cancel approved Major Capital Projects.

Section 4. The reporting to ERC should be compatible and in accordance with the Distribution Wheeling Rate Guidelines (DWRG) upon adopting an alternative rate-setting methodology in the form of Performance-based Regulation (PBR).

ARTICLE III

ADMISTRATIVE SANCTIONS

Violations of this Guidelines shall be subject to the penalty which the Commission may impose in accordance with the Guidelines to Govern the Imposition of Administrative Sanctions in the Form of Fines and Penalties pursuant to Section 46 of Republic Act 9136.

ARTICLE IV

TRANSITORY PROVISIONS

Major Capital Projects that have been completed or have been commenced shall be submitted for the ERC's approval, within three (3) months from the date of the effectivity of this Guidelines.

ARTICLE V

FINAL PROVISION

Section 1. SEPARABILITY CLAUSE - If for any reason, any provision of this Guidelines is declared unconstitutional or invalid by final judgment of a competent court, the other parts or provisions hereof which were not affected thereby shall continue to be in full force and effect.

SECTION 2. REPEALING CLAUSE - Any rule or regulation inconsistent with the provisions of this Guidelines is hereby repealed and modified accordingly.

Section 3. EFFECTIVITY - This Guidelines shall take effect fifteen (15) days upon its publication in a newspaper of nationwide circulation.

Pasig City, February 08, 2005.

RODOLFO B. ALBANO, JR.
Chairman

OLIVER B. BUTALID
Commissioner

JESUS N. ALCORDO
Commissioner

RAUF A. TAN
Commissioner

ALEJANDRO Z. BARIN
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