

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 SUB-TRANSMISSION
LINES/ASSETS OF THE NATIONAL
TRANSMISSION CORPORATION
(TRANSCO) TO THE ILOCOS NORTE
ELECTRIC COOPERATIVE, INC. (INEC),
AS COVERED BY A LEASE PURCHASE
AGREEMENT (LPA).

ERC CASE NO. 2010-053RC

NATIONAL TRANSMISSION
CORPORATION (TRANSCO) and
ILOCOS NORTE ELECTRIC
COOPERATIVE, INC. (INEC),

Applicants.

x-----x

JOINT APPLICATION

Applicants **NATIONAL TRANSMISSION CORPORATION (TransCo)** and
ILOCOS NORTE ELECTRIC COOPERATIVE, INC. (INEC), through their
respective counsels, and to this Honorable Commission most respectfully
state that:

(1) Applicant **TransCo** is a government-owned-and-controlled
corporation duly created by virtue of Republic Act No. 9136 otherwise
known as the "Electric Power Industry Reform Act of 2001" (EPIRA), with
principal office address at the TransCo Main Building, Quezon Avenue
corner BIR Road, Diliman, Quezon City;

(2) Applicant **ILOCOS NORTE ELECTRIC COOPERATIVE, INC. (INEC)** is an electric cooperative (distribution utility) duly organized and existing under Philippine laws, with principal office address at Suyo, Dingras 2913 Ilocos Norte;

(3) By virtue of Section 8 of R.A. No. 9136, TransCo assumed the electrical transmission functions of the National Power Corporation (NPC) and its authority and responsibility for the planning, construction and centralized operation and maintenance of the high voltage transmission facilities, including grid interconnections and ancillary services. The EPIRA also mandates the segregation of the transmission and sub-transmission functions and assets for transparency and disposal;

(4) It is likewise provided under Section 8 of the EPIRA and Rule 6, Section 8 (e) of the EPIRA's Implementing Rules and Regulations (IRR), that TransCo shall negotiate with, and thereafter transfer, its sub-transmission assets and facilities to qualified Distribution Utilities (DU's) connected to such sub-transmission facilities not later than two (2) years from the effectivity of the EPIRA or the start of the open access, whichever comes earlier;

(5) Pursuant thereto, this Honorable Commission promulgated on 17 October 2003 the "Guidelines to the Sale and Transfer of TransCo's Sub-transmission Assets and the Franchising of Qualified Consortiums," as amended by Resolution No. 3, Series of 2005 (17 March 2005), hereinafter referred to as the "ERC Guidelines," which set forth, among others, the standards to distinguish TransCo's transmission assets from its sub-

transmission assets and establish the approval process prior to the final sale and transfer of sub-transmission assets to DU's;

(6) Consistent with the ERC Guidelines, TransCo has adopted its very own Guidelines on the Sale of Sub-transmission Assets ("TransCo Guidelines") as approved by TransCo Board Resolution No. TC-2203-067 dated 28 November 2003, as further amended by TransCo Board Resolution No. TC-2004-009 dated 16 March 2004;

Copies of the TransCo Guidelines and Board Resolutions TC-2003-067 and TC-2004-009 are hereto attached as Annexes "**A**," "**B**" and "**C**," respectively, and made integral parts hereof;

(7) Pending compliance with the conditions precedent for the transfer of assets from NPC to TransCo, the respective Board of Directors of NPC and the Power Sector Assets and Liabilities Management Corporation (PSALM) have authorized TransCo to negotiate, and execute the necessary contract with DU's for the disposal of the sub-transmission assets in accordance with the EPIRA, its IRR and the ERC Guidelines;

The NPC Board Resolution No. 2003-131 dated 18 December 2003 and PSALM Board Resolution No. 04-09 dated 24 February 2004 are hereto attached as Annexes "**D**" and "**E**," respectively, and made integral parts hereof;

(8) In accordance with the aforesaid ERC Guidelines, TransCo has evaluated that the following assets meet the criteria for sub-transmission assets:

(1) Currimao-San Nicolas 69 kV;

- (2) San Nicolas-Laoag 69 kV;
- (3) Laoag-Sarrat 69 kV;
- (4) Sarrat-Marcos 69 kV; and,
- (5) Sarrat-Pidig 69 kV;

Copies of the Report that the assets for sale meet the criteria for sub-transmission assets, the list of sub-transmission assets for sale and the single line diagrams are hereto attached as Annexes "F," "G" and "H," respectively, inclusive of sub-markings, and made integral parts hereof;

(9) Applicant INEC, which is the purchaser of the subject sub-transmission assets, possesses the technical capability under Article IV of the aforesaid Guidelines in acquiring the said sub-transmission assets. INEC is likewise financially capable of operating and maintaining the said sub-transmission assets in its franchise area;

Hereto attached as Annexes "I" and "J," respectively, are the Audited Financial Statements and Balance Sheet of INEC for the years 2007 and 2008;

(10) Pursuant also to the ERC and TransCo Guidelines, TransCo has evaluated and established that INEC meets the technical and financial qualifications to purchase the subject sub-transmission assets located within its franchise area;

Copies of the Technical and Financial Qualification Evaluations conducted by TransCo are hereto attached as Annexes "K" and "L," respectively, inclusive of sub-markings, and made integral parts hereof;

The Description of the Franchise Area being served by the subject assets is likewise attached as Annex "M;"

(11) In view of the above, TransCo and INEC negotiated and concluded a Lease Purchase Agreement (LPA) on 21 July 2006, and an Amendment thereto on 8 October 2008 covering the subject sub-transmission assets. The Board of Directors of INEC issued Resolution No. 71-07-2006 ratifying the said agreement;

Attached hereto as Annexes "N," "O" and "P" and made integral parts hereof, are the subject Lease Purchase Agreement, Amendment to the Lease Purchase Agreement, together with its attachments, and the INEC Board Resolution dated 18 July 2006;

(12) Under the terms of the Amendment to the Lease Purchase Agreement, a down payment of twenty percent (20%) of the purchase price of **FIFTY FOUR MILLION SEVEN HUNDRED EIGHT THOUSAND TWO HUNDRED THIRTY SIX AND 84/100 (P54,708,236.84)**, net of adjustments and deductions, or equivalent to **TEN MILLION NINE HUNDRED FORTY ONE THOUSAND SIX HUNDRED FORTY SEVEN AND 37/100 PESOS (P10,941,647.37)**, is payable upon approval by the ERC of the said Agreement;

(13) The remaining balance of eighty percent (80%), equivalent to **FORTY THREE MILLION SEVEN HUNDRED SIXTY SIX THOUSAND FIVE HUNDRED EIGHTY NINE AND 47/100 (P43,766,589.47)**, shall be paid in **seventeen (17) years and eleven (11) months** in **TWO HUNDRED FIFTEEN (215)** equal monthly installments, plus interest thereon;

The financed portion shall be charged a fixed interest at the rate based on the Money Market Association of the Philippines (MART) benchmark rates, called MART 1 rates, at the time of receipt of the twenty percent (20%) down payment;

(14) The said purchase price is fair and reasonable as it represents the disposal value of the subject sub-transmission assets based on potential revenue which, pursuant to this Honorable Commission's Guidelines, is deemed to be the Current Sound Value thereof. A copy of the Asset Valuation Computation is hereto attached as Annex "Q", inclusive of sub-markings;

(15) Section 4, Article V of the ERC Guidelines provides that prior to the final sale and transfer of such sub-transmission assets by TransCo to a qualified DU or qualified consortium, the parties must seek first the approval of this Honorable Commission. Said provision likewise requires the applicants to submit certain documents in order to facilitate the review and approval of the proposed sale and transfer of sub-transmission assets. In compliance therewith, TransCo and INEC hereby respectfully submit the following documents in support of their Joint Application:

(a) List of Directly Connected Entities and DU's connected to the said assets (Annex "R");

(b) Third Party Appraisal Report (Annex "S"); and,

(c) Draft Deed of Absolute Sale (Annex "T");

(16) The proposed sale has satisfied all of the requirements and criteria set by the EPIRA and its IRR, as well as the ERC and TransCo Guidelines on the sale of the sub-transmission assets;

(17) The approval by this Honorable Commission of the instant Joint Application shall pave the way for the attainment of a reformed electricity industry under the EPIRA, towards a competitive regime/cost of electricity through open access and customer choice of supplier of

electricity, which would ultimately best serve the interest of the consuming public.

PRAYER

WHEREFORE, it is respectfully prayed of this Honorable Commission to **APPROVE** the sale of the subject sub-transmission assets to **INEC** under the terms laid down in the Lease Purchase Agreement (LPA) dated 21 July 2006, and the Amendment thereto dated 8 October 2008;

Other relief deemed just and equitable under the premises are likewise prayed for.

Quezon City for Pasig City, 6 October 2009.

NATIONAL TRANSMISSION CORPORATION (TransCo)
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By:

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ILOCOS NORTE ELECTRIC COOPERATIVE, INC. (INEC)

By:

ATTY. EMILIO EDGAR V. DOLOROSO

PTR No. 3793967/01.05.09

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VERIFICATION and CERTIFICATION ON NON-FORUM SHOPPING

REPUBLIC OF THE PHILIPPINES)
QUEZON CITY) SS.

I, **ARTHUR N. AGUILAR**, Filipino, of legal age, with office address at the National Transmission Corporation (TransCo), TransCo Main Building, Quezon Avenue corner BIR Road, Diliman, Quezon City, after having been duly sworn in accordance with law, do hereby depose and state that:

(1) I am the President and Chief Executive Officer of Applicant National Transmission Corporation (TransCo), who is the duly authorized representative in the above-entitled case pursuant to Sec. 7.0 of the Revised Manual of Approvals duly approved by the Transco Board on 26 June 2003 under Board Resolution No. TC 2003-043. A copy of the said Manual of Approvals is hereto attached as **Annex "U"**;

(2) I have caused the preparation of the foregoing Joint Application;

(3) I have read the contents thereof and I attest that the allegations therein contained are true and correct based on my personal knowledge and on authentic records;

(4) I have not heretofore commenced any other action or proceeding involving the same issue with the Supreme Court, the Court of Appeals or the different divisions thereof, or any other court, tribunal or agency; and,

(5) Should I thereafter learn of such other similar action(s) or proceeding(s), I hereby undertake to promptly inform this Honorable Commission of such fact within five (5) days therefrom.

ARTHUR N. AGUILAR
Affiant

ACKNOWLEDGMENT

(REPUBLIC OF THE PHILIPPINES)
(QUEZON CITY) SS.

SUBSCRIBED and SWORN TO before me this ___ day of _____, 2009, with affiant **ARTHUR N. AGUILAR** presenting to me his Community Tax Certificate No. 07274018 issued on 20 January 2009 in Muntinlupa City, known to me and to me known to be the same person who executed the foregoing Application which consists of ten (10) pages, including the page where this Acknowledgment is written.

NOTARY PUBLIC

My commission expires _____.

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 2009.

VERIFICATION and CERTIFICATION ON NON-FORUM SHOPPING

REPUBLIC OF THE PHILIPPINES)
QUEZON CITY) SS.

I, **REYNALDO M. LAZO**, Filipino, of legal age, with office address at Ilocos Norte Electric Cooperative, Inc. (INEC), Suyo, Dingras, Ilocos Norte 2913 Philippines, after having been duly sworn in accordance with law, do hereby depose and state that:

(1) I am the President of the Board of Directors (BOD) of Applicant Ilocos Norte Electric Cooperative, Inc. (INEC), who is the duly authorized representative in the above-entitled case, as evidenced by the hereto attached document which is marked as **Annex "V"**;

(2) I have caused the preparation of the foregoing Joint Application;

(3) I have read the contents thereof and I attest that the allegations therein contained are true and correct based on my personal knowledge and on authentic records;

(4) I have not heretofore commenced any other action or proceeding involving the same issue with the Supreme Court, the Court of Appeals or the different Divisions thereof, or any other court, tribunal or agency; and,

(5) Should I thereafter learn of such other similar action(s) or proceeding(s), I hereby undertake to promptly inform this Honorable Commission of such fact within five (5) days therefrom.

REYNALDO M. LAZO
Affiant

ACKNOWLEDGMENT

(REPUBLIC OF THE PHILIPPINES)
(**DAVAO CITY**) SS.

SUBSCRIBED and SWORN TO before me this ___ day of _____, 2009, with affiant **REYNALDO M. LAZO** presenting to me his Community Tax Certificate No. _____ issued on _____2009 in _____, known to me and to me known to be the same person who executed the foregoing Application which consists of nine (9) pages, including the page where this Acknowledgment is written.

NOTARY PUBLIC
My commission expires _____.

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 2009.

