

ANNEX "A"

Republic of the Philippines
ENERGY REGULATORY COMMISSION
Ortigas Avenue, Pasig City

RESOLUTION NO. _____, SERIES OF 2008

**IN THE MATTER OF THE AMENDMENT OF THE GUIDELINES TO
THE SALE AND TRANSFER OF TRANSCO'S SUBTRANSMISSION
ASSETS AND THE FRANCHISING OF QUALIFIED CONSORTIUMS**

This is to amend Articles IV and V of the *Guidelines to the Sale and Transfer of TransCo's Subtransmission Assets and the Franchising of Qualified Consortiums*.

Article IV of the said Guidelines is hereby amended to read as follows:

"Article IV

**QUALIFICATION CRITERIA OF DISTRIBUTION UTILITIES
OR CONSORTIUM OF DISTRIBUTION UTILITIES**

Section 1. Technical Capability Criteria – The technical criteria for qualification shall include but not limited to the following:

- a) Should have at least one year experience in the operation and maintenance of a line with voltage level equivalent to that of the Subtransmission Asset to be acquired. A Distribution Utility without the necessary experience should undergo at least a one month training program from TransCo at its own expense.
- b) Should have a minimum inventory of materials used for immediate replacement during emergency repair and maintenance of the line.
- c) Should have at least two years experience in the operation and maintenance of substation facilities and have qualified personnel for metering, protection and instrumentation, transformer testing and evaluation. A Distribution Utility without the necessary experience should undergo at least a one-month training program from TransCo at its own expense.
- d) Should have a combined weighted average of not more than 80% in reliability performance for the most current year (Interruption Frequency Rate – 50% and Cumulative

Interruption Time-50%). The standard is set at **20** times for Interruption Frequency Rate and 45 hours for Cumulative Interruption Time. A Distribution Utility not meeting the criterion may provide an explanation to be considered by the Commission.

- e) Should have submitted to the ERC its Statement of Compliance to the Philippine Grid and Distribution Codes.
- f) 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 Philippine Grid and Distribution Codes. ***A Distribution Utility not meeting the criterion may provide an explanation to be considered by the Commission.***

A Distribution Utility who fails to meet the standards above-prescribed may, in the alternative, submit an Operations and Maintenance contract with a qualified utility (such as TransCo) for the operation of the subject sub-transmission asset/s.

Section 2. Financial Capability Criteria – The financial criteria for qualification shall include but not limited to the following based on the most current audited financial statement:

- a) Current on all financial obligations related to all contracts with suppliers of inputs necessary for the Distribution Utility's provision of electricity service to its End-Users;
- b) Current on all financial obligations related to outstanding debt: Provided, That the ERC may grant exceptions in the case of pending debt restructuring;
- c) A ***current ratio of not less than 0.70:1 or a quick ratio of not less than 0.50:1***. The current ratio shall be calculated as the ratio of the current assets to current liabilities. The current ratio shall be calculated as the ratio of the current assets to current liabilities. The quick ratio shall be calculated as the ratio of the current assets less inventory to current liabilities;
- d) A ***debt ratio of not more than 80%***. The debt ratio shall be calculated as the ratio of total liabilities to total assets;
- e) An ***average collection period of not more than ninety (90) days***. The average collection period shall be calculated as the ratio of average receivables to daily sales. The average receivables shall be determined using the average of the

receivables at the beginning and end of the year. The daily sales shall be computed by dividing sales by 365 days; and

- f) A positive net profit margin and return on assets. The net profit margin shall be calculated as the ratio of net profits after taxes to sales. The net profits after taxes shall be computed as earnings before interest and taxes minus tax (EBIT-Tax). The return on assets shall be computed as the ratio of earnings before interest and taxes minus tax (EBIT-Tax) to the average total assets.

A Distribution Utility who fails to meet the criteria above-prescribed may, in the alternative, submit to the Commission a letter-guarantee from an entity acceptable to TransCo or a written waiver from TransCo that it is willing to sell the subject subtransmission asset despite the DU not meeting the prescribed financial criteria.”

Section 3. x x x”

Article V of the said Guidelines is hereby amended to read as follows:

“Article V

PROCEDURES PRIOR TO FINAL SALE AND TRANSFER OF SUBTRANSMISSION ASSETS

Section 1. Negotiation of the Sale and Transfer Agreement –

TransCo shall negotiate a sale and transfer agreement for assets classified as Subtransmission Assets based on the criteria established in Article III hereof, to all interested Qualified Distribution Utilities or Qualified Consortium connected to such subtransmission facilities. The Qualified Distribution Utility or Qualified Consortium interested in purchasing Subtransmission Assets shall negotiate to acquire all Subtransmission Assets to which they are connected.

In agreeing to the terms of payment for such sale, TransCo shall grant concessional financing to Electric Cooperatives (ECs) as required by law. The ECs may source the funds for buying the asset from their corresponding reinvestment funds while the cost of operating and maintaining the same shall be sourced from their existing O & M expense accounts.

For Private Utilities (PUs), the cost of buying said asset should be considered in their reset application under the Rules for Setting Distribution Wheeling Rates (RDWR) or in their applications for rate adjustment filed prior to their entry to the RDWR.

TransCo and the Qualified Distribution Utilities shall endeavor to enter into a mutually acceptable arrangement on issues regarding right-of-way (ROW).

Section 2. Asset Valuation. *The subtransmission asset shall be valued as follows:*

- a) If the contract was entered into before June 13, 2006, the subtransmission asset should be valued at the agreed price between the DU and TransCo; and***
- b) If the contract was entered into after June 13, 2006, the value of the subtransmission asset shall not be more than the SKM valuation.***

Section 3. x x x

Section 4. x x x (As amended by Resolution No. 03, Series of 2005)

Section 5. **TRANSCO Rates** – TRANSCO shall immediately cease billing of the ***current*** subtransmission rates upon the date of final sale of all connected Subtransmission Assets to a Qualified Distribution Utility or Qualified Consortium but will continue billing the existing subtransmission rates to any entity connected to Subtransmission Assets that have not been acquired by a Qualified Distribution Utility or Qualified Consortium. No later than 27 months following the effectivity of these guidelines, the TRANSCO shall include any remaining assets previously classified as subtransmission in the recalculation of transmission rates. Following approval of the recalculated transmission rates by ERC, TRANSCO shall cease billing all subtransmission rates.

Section 6. Directly Connected End-user Rates – The rates to be imposed on the end-users directly connected to TransCo shall be the rates as approved and authorized by the Commission under the Connection Charging Policy (CCP). The DU should file with the Commission, within six (6) months upon approval of the sale, the appropriate application for the recovery of said rates, otherwise, the same can not be charged to the consumers.

Section 7. Procedure for Filing with ERC – Any petition, application or action to be filed herein shall be governed by the existing Rules of Practice and Procedure Governing Hearings before the ERC, the pertinent provisions of the Act or its IRR and other related laws.”

(NOTE: Those that are in bold and italics are the amendments to the existing guidelines.)