

**NAPOCOR INDUSTRIAL CONSUMERS ASSOCIATION INC.**  
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29 May 2003

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

Attn.: Atty. Fructuoso C. Lagunzad, Jr.  
Executive Director

Subj.: COMMENTS & QUESTIONS

Ref.: (Draft) GUIDELINES TO GOVERN THE SETTING OF STANDARDS TO DISTINGUISH THE TRANSMISSION FROM THE SUBTRANSMISSION ASSETS OF TRANSCO AND THE BUYER OR CONCESSIONAIRE OF SAID ASSETS AND THE GRANT OF FRANCHISE TO OPERATE THE SUBTRANSMISSION ASSETS.

S I R:

Herewith are our association's comments and questions on the above-referenced draft guidelines. We hope you find these in order.

ARTICLE II.

SCOPE AND DEFINITION OF TERMS:

Section 1. Scope - These Guidelines shall apply to:

(c) Any Qualified Distribution Utility or Consortium...

**Comment:** Before any distribution utility may be regarded as "Qualified", it should first pass standards as set. The distribution code has already defined Performance and Financial Standards which distribution utilities shall have to meet. It is a timely situation to start asking utilities to meet such standards before they shall be deemed "Qualified" in these Guidelines.

ARTICLE III

FUNCTIONAL AND VOLTAGE SUBTRANSMISSION STANDARDS

Section 2. Establishment of a Voltage Standard - Except as may be authorized by the succeeding article, an asset of TRANSCO or its Buyer or Concessionaire located in the Luzon, Visayas or Mindanao Grids and in the isolated distribution system, shall be classified as transmission assets if its rated voltage is 69 kV and above and subtransmission assets if its rated voltage is below 69 kV.

**Question:** If the above definition is adhered to, will this result in a change of tariffs which TRANSCO charges? We remember that when NPC/TRANSCO unbundled its rates, e.g. Luzon: the rate base comprised all transmission lines rated 230KV and higher - this will result in TRANSCO not being able to charge subtransmission tariffs to end-users connected to 69KV.

ARTICLE IV

PETITION FOR FUNCTIONAL ASSET CLASSIFICATION

Section 2. Submission of Required Data

**Comment:** Submission of the data as required cannot effectively enable ERC to determine if applicant DUs are ready to take over subtransmission facilities. A simple practical approach among others is to test if a DU can reduce duration and frequency of interruptions at the 69KV level. This can be simply exemplified by asking the utility if it has ever or can replace a 69KV pole without interrupting the 69KV line. The availability of the necessary tools and trained manpower of course comes along with this capability.

If ever new subtransmission lines have to be strung by a DU, does it have the necessary heavy equipment and tools to enable it to effectively construct such lines? Does the DU have the necessary testing equipment to effectively maintain subtransmission lines? Answers to these questions have to be in the affirmative before a DU is allowed to take over subtransmission facilities of TRANSCO.

If a large customer's account with a demand of say, 20 Megawatts is to be transferred to a DU whose system demand is only say 30 Megawatts and there comes a time that the customer suffers economic difficulties, in all probability, the DU is bound to suffer financial losses beyond what its liquidity can absorb. Financial parameters should be set to determine if such an account deserves being transferred to the DU or it may be in terms of a percentage (SAY, 10%) of the current system demand of a DU – i.e. if a large customer's demand is more than 10% of the DU's current demand, the customer should not be obliged to have his account transferred to the DU. In such case, TRANSCO likewise may not be obliged to transfer the subtransmission asset serving such a customer to the DU.

**ARTICLE V**  
**APPLICATION FOR FRANCHISE TO OPERATE**  
**THE SUBTRANSMISSION ASSET**

**Question:** Is the ERC authorized to **grant franchises** concerning the operation and maintenance of transmission and/or sub-transmission facilities. Section 27 of the EPIRA provides that this is **vested exclusively in the Congress** of the Philippines. The seventh paragraph of Section 8 of the EPIRA anyhow allows the ERC to grant a franchise to a consortium of distribution utilities taking over a sub-transmission asset i.e. a consortium but not a single distribution utility. The above inconsistencies have to be resolved.

On the other hand, it is indeed really **necessary to grant a franchise** to a consortium especially if the sub-transmission assets to be taken over from TRANSCO traverses thru **two or more franchised areas** of DUs. The new combination of the two franchised areas becomes a **new area** in itself and obviously, this necessitates a **new franchise law** and is it not logical to say that new laws can only be enacted by **congress** and not ERC?

Is it really necessary to amend the franchise of a DU if and when it takes over a subtransmission asset of TRANSCO? Some DUs already have their own subtransmission assets and they were not required to amend their franchises to operate such assets.

Thank you.

Very respectfully,

(Signed) Robert F. Mallillin  
Chairman, Technical Committee