

Section	Page no.	Topic	Comments / Recommendations
1. General Comment		Purpose	It appears that the draft Guidelines aim to avoid a situation where Transco/Buyer/Concessionaire needs to account for, and have a separate rate for, a portfolio of sub-transmission assets scattered around the country after many DUs have purchased the sub-transmission assets in their franchise areas. The Guidelines appear to contemplate, and provide a procedure for, the disposal of sub-transmission assets to DUs as provided in the EPIRA, with the exception of dedicated/sole use assets already owned by parties other than Transco. If this is the case, it would be helpful if these matters could be spelt out clearly. This might also help to prevent objections and opposition to the proposed Guidelines based on possible misunderstanding.
2. General Comment		Timing and Effectivity; Impact on Privatization	Clarification/Confirmation: In the event that TRANSCO is privatized prior to the promulgation of the Guidelines, PSALM/TRANSCO is adopting the default classification under the EPIRA and IRR. Likewise, do the Guidelines intend to have effect on current subtransmission assets (classified according to EPIRA and IRR) pending for sale? Can these assets still be purchased by DUs?
3. General Comment		Effect and Applicability	Clarification: After a DU acquires a subtransmission asset, it needs to be stated clearly whether these assets can still be considered as subtransmission asset or will then form part of the respective DU's distribution system.
4. Opening Statement	1	Re-drafting suggestion	Initial reference to TRANSCO in this Section. Recommend redrafting to define TRANSCO: "Pursuant to Sections ... to distinguish the National Transmission Corporation's (TRANSCO) transmission assets ... "
5. Article 1(b) (c)	1	Objectives of the Guidelines	Clarification: It is our understanding that as a wires business, sub-transmission, like transmission, is a natural monopoly and should not be subject to "free and fair competition". Hence, "free and fair competition" may not necessarily be an objective applicable to the ownership and operation of sub-transmission assets. In the same regard, "[b]roadening the ownership base of the electric power transmission sector" does not seem to be consistent with its being a natural monopoly. A broad ownership base coupled with competition destroys the economic rent that a monopolist should realize. The draft Guidelines does not mention the need for the sub-transmission owner/operator to realize a sufficient economic return.
6. Article 1(e)	1	Typo	Delete "or" after "Concessionaire".

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7.	Article II, Section 1	2	Scope; Re-drafting suggestion	<p>Final paragraph: We suggest that this be elaborated to make it clearer that the Guidelines in no way limit open access to the transmission or sub-transmission assets, nor the right of DUs (under Section 8 of EPIRA) to negotiate with Transco and seek to acquire sub-transmission assets which connect their distribution systems to the high voltage backbone system.</p> <p>Clarification: In the sentence beginning "Furthermore", reference to "customer" is not clear: Is it intended to refer to end-user, supplier, or transmission customer?</p>
8.	Article II, Section 1	2	Scope; Clarification	<p>Scope does not seem to cover a scenario whereby a private company or a distributor or government agency other than TRANSCO/PSALM/NPC (e.g. PEZA) builds a sub-station and then turns over/sells such facility to any of these parties.</p>
9.	Article II, Section 2	2	Definitions – Generally; Re-drafting suggestion	<p>We recommend that the Guidelines incorporate by reference terms defined in EPIRA and used but not defined in the Guidelines. To accomplish this result, we suggest that the Guidelines include the following sentence: "All capitalized terms not otherwise defined below shall have the meaning defined in the Act unless the context otherwise requires."</p> <p>The Guidelines define Subtransmission Assets and Directly Connected Entity, but do not consistently capitalize those terms throughout the draft. We recommend that the ERC consistently capitalize all instances of defined terms.</p> <p>The terms Directly Connected Entity and Directly Connected Generator do not appear in alphabetical order.</p>
10.	Article II, Section 2 (b)	2	Definition of "Buyer or Concessionaire"; Typo	<p>We suggest adding "the" to the 2nd line: "...concession contract for the transmission assets..."</p>
11.	Article II, Section 2 (j)	3	Definition of "National Transmission Corporation"; Re-drafting	<p>Add "and subtransmission" to the 3rd line and delete from the same line "National Power Corporation" to read as follows: "...shall refer to the corporation ... to acquire all the transmission and subtransmission assets of NPC."</p>

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12.	Article II, Section 2 (l)	3	Definition of "Subtransmission Assets"; Clarification and re-drafting suggestion	<p>This definition may be too broad as it includes the entirety of the "associated switchyard/substation." Such an interpretation would render all substations forming part of a Grid that allow the step down of electricity from a transmission voltage to a subtransmission voltage as Subtransmission Assets. In addition, the definition should more clearly reflect the voltage standard established as the default rule by Article III, Section 2, and the approval process outlined in Article IV based on the functional standards established by Article III, Section 1. We suggest the following changes to the definition:</p> <p><u>"Subtransmission Assets"</u> shall refer to assets classified as Subtransmission Assets by: (i) the voltage standard established by Article III, Section 2 hereof, or (ii) the ERC acting on a petition filed in accordance with Article IV hereof in accordance with the functional standards established in Article III, Section 1 hereof, in either case including but not limited to step-down transformers ...</p>
13.	Article II, Section 2	3	Suggested additional definitions	<p>We recommend the inclusion of the following terms in this section:</p> <ul style="list-style-type: none"> (a) "Grid" shall have the same definition as provided under the Grid Code. (b) "IRR" shall refer to the Implementing Rules and Regulations of the Act (c) "National Power Corporation" or "NPC" shall refer to the corporation organized pursuant to Republic Act No. 6395, as amended. (d) "Transmission Assets" shall refer to assets classified as transmission assets by the voltage standard established in Article III, Section 2 hereof, unless and until the ERC classifies such assets as Subtransmission Assets under the procedures set forth in Article IV hereof in accordance with the functional standards established in Article III, Section 1 hereof. (e) "Rolled-forward depreciated regulatory asset base" shall have the same meaning as provided under the Transmission Wheeling Rate Guidelines issued by the ERC.
14.	Article III, Section 1(a)	3	Directly Connected Generators; Clarification, suggested re-drafting	<p>Clarification: This paragraph seems to state that <i>existing</i> generation connection assets "held" (or owned?) by Transco are classified as transmission.</p> <ol style="list-style-type: none"> 1. What does the term "held" mean? 2. We suggest that the paragraph state clearly whether new generator connections are also expected to be transmission assets or whether they can be classified as connections. For this purpose, it might be useful to make reference to EPIRA provisions on sole user connections, multiple user connections, and the ERC's right to require re-classification of assets if these are used to serve loads.

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15.	Article III, Section 2	4	Voltage standard; impact on tariffs	The new voltage standard may lead to a considerable increase in TRANSCO's transmission assets, at least during the initial regulatory period under Transmission Wheeling Rate Guidelines. We seek clarification on the applicable tariffs that may be charged for these re-classified lines, <i>i.e.</i> , since the approved transmission delivery charges are significantly higher than subtransmission delivery tariffs.
16.	Article IV, Section 2	4	Submission of Data; Typos, suggested re-draft	<p>a. Description of the franchise area(s) being served.</p> <p>c. End-Users directly connected</p> <p>d. Delete "and any End Users" as these are covered in paragraph c.</p>
17.	Article III, Section 1(b)	4	Directly Connected End-Users; Clarification, suggested re-drafting	<p>Section 8 of EPIRA appears not to require TRANSCO to sell subtransmission assets to Qualified Distribution Utilities unless such Distribution Utilities connect to a Grid with such Subtransmission Assets. However, this Section of the Guidelines, taken together with the description of eligible petitioners in Article IV, Section 1, appears to allow Qualified Distribution Utilities to petition the ERC to reclassify transmission assets that serve only directly connected end users. We recommend that the ERC clarify that Qualified Distribution Utilities may only purchase subtransmission assets connecting directly connected end users if such assets also connect the Qualified Distribution Utility to a Grid, and only then if the assets are currently owned by TRANSCO, not by the end users.</p> <p>The provision does not state clearly who the proper party may be to petition the ERC for re-classification. We recommend re-drafting to state that "upon petition by an End User or group of End Users, or by TRANSCO on behalf of such End User in accordance with the procedures set out in these Guidelines, the ERC may classify ...". (In paragraph c, as applicable to Directly Connected Load-end Substation, the petition would be from a qualified DU or consortium of DUs.)</p>
18.	Article V, Section 1	4	Eligible Petitioner; Typo	Delete "of the Act" at the end of last line.
19.	Article V, Section 1	4	Eligible Petitioner	While the Guidelines allow petition for re-classification by interested buyers of facilities, there is no provision setting the procedure for re-classification in other cases. For instance, NPC currently has lines below 69kV in the areas Botocan, Caliraya, Loboc, Talomo, Agusan, Amlan – all performing essential transmission functions. What is the procedure then for the (reverse) classification of these assets as transmission assets? Should the Guidelines, on the other hand, also provide for the purchase of assets performing transmission functions and are not part of the "backbone" system (regardless of voltage level) since this does not fall under the definition of "Grid"?

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20.	Article V, Section 1	4	Eligible Petitioner; Clarification, effect of re-classification	<p>We note that under the draft Guidelines, a DU must present a letter of intent or pending contract with TRANSCO as part of its petition to reclassify assets.</p> <p>However, in the event that the petition for re-classification (and application for franchise under Article V) is granted in favor of Applicant-DU or Consortium, and the purchase is not completed due, for instance, to the bankruptcy of one or all of the DUs during the time the petition is pending, will the assets retain the subtransmission classification such that subtransmission tariffs will apply? Or will the re-classification be nullified and the assets revert to being transmission assets?</p>
21.	Article V, Section 1	5	Eligible Applicant; Clarification, suggested re-drafting	<p>For clarity, the Guidelines should state that the acquisition of sub-transmission asset(s) by a single DU does not require a new franchise or franchise application to ERC; the requirement to apply to ERC for a franchise applies only to consortia of more than one DU, consistent with Sections 8 and 27 of EPIRA.</p> <p>We suggest that the Guidelines address the situation where one or more of the DUs in a consortium may not (yet) be a Qualified DU, if responsibility for operation, <i>etc.</i>, is borne by other members of the consortium who are Qualified DUs. Lack of qualification of one DU among a group of DUs served by a particular sub-transmission asset should not necessarily inhibit the purchase of the assets.</p>
22.	Article V, Section 1	5	Eligible Applicant; Clarification	<p>If a Qualified Distribution Utility which had solely purchased and owned a sub-transmission asset (and hence had no need for a franchise at the time of its acquisition of the subtransmission asset) sold an equity stake in its company to another DU such that they are now connected to the same subtransmission asset, would the new company need to secure a franchise?</p>
23.	Article V, Section 2	6	Submission of Data; Suggestions	<p>h. Applicants should also provide data on their respective loads and the explanation of their respective subscription rights if these are different from their proportionate loads</p> <p>i. Specify whether these should be the audited financial statements of the DUs or of the new consortium, or both.</p>

24.	Section Article VI, Section 1	Page no. 6	Topic Valuation of assets; Clarification	Comments / Recommendations Some basic guidelines on valuation methodology are provided in this section, in the case of dispute resolution. Considering that the “General Provisions” specify that one objectives of the Guidelines is “to provide for the orderly and transparent privatization” of subtransmission assets, it suggests that some details on a valuation methodology for the sale of the subtransmission assets should be provided. However, there is no indication in the Guidelines on the valuation methodology that should be adopted for the sale of subtransmission assets. Does the ERC intend to provide these separately? Likewise, we note with concern that: item (a), as currently drafted, reads as not to include capex additions in the valuation; and for (b), it should be the revenues which the customers (not TRANSCO) would earn over the life of the asset if it were included in the customers’ RAB. It is also possible that disputes will arise regarding the classification of assets which directly connect End-Users or Generators to the Grid or in other matters beyond the valuation to be agreed between Transco and DUs. Does the ERC intend to hear and decide on petitions relating to these matters? If so, we suggest that this be stated clearly in the Guidelines.
25.	Section Article VI, Section 1	6	Valuation of assets; suggested re- drafting	We recommend re-wording from “rate base...net of accumulated depreciation” to “rolled-forward depreciated regulatory asset base” for consistency with the Transmission Wheeling Rate Guidelines.