



National Transmission Corporation

30 May 2003

HON. MANUEL R. SANCHEZ
Chairman
Energy Regulatory Commission
San Miguel Avenue
Pasig City



SUBJECT: PROPOSED ERC GUIDELINES TO GOVERN THE SETTING OF STANDARDS TO DISTINGUISH THE TRANSMISSION AND SUB-TRANSMISSION ASSETS OF TRANSCO AND THE BUYER OR CONCESSIONAIRE OF SAID ASSETS AND THE GRANT OF FRANCHISE TO OPERATE THE SUB-TRANSMISSION ASSETS.

Dear Chairman Sanchez:

This has reference to the above subject which was issued by your office on 15 May 2003. We would like to submit our comments and position regarding the said Guidelines, specifically on the following provisions:

Article III, Section 2, Paragraph 1 - Establishment of a Voltage Standard:

" 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 sub-transmission assets if its rated voltage is below 69 KV".

TRANSCO Comments:

In the absence of the Final Guidelines, TRANSCO has been working to facilitate the sale of sub-transmission assets based on the initial classification set forth under Chapter II Section 7 of R.A. 9136, which identified the sub-transmission assets as those facilities below 230 KV in the Luzon Grid, below 69 KV in the

Visayas Grid and in the isolated distribution system, and below 138 KV in the Mindanao Grid.

Based on these classifications, TRANSCO has identified about 7,600 circuit-kilometer lines and 106 units of transformers equivalent to 2,225 MVA capacity, which can be sold to qualified distribution utilities. Of the 128 distribution utilities in the Philippines main grids, 113 (88.3%) have initially expressed interest to acquire these assets.

With the proposed classifications, TRANSCO'S sub-transmission assets would be limited to 200 circuit kilometer lines and two units of transformers equivalent to 115 MVA capacity only. We doubt whether the distribution utilities would still be interested to acquire these assets.

Furthermore, the existing ERC-approved transmission and sub-transmission rates of TRANSCO were based on the initial classifications specified in Chapter II Section 7 of R.A. 9136. The proposed reclassification would reflect inconsistencies with the asset base, thus, TRANSCO has to file for new rates with reference on the new asset classification. This is necessary as it is expected that once the distribution utilities acquire the identified sub-transmission assets, TRANSCO shall no longer charge the distribution utilities with sub-transmission fees.

Article IV, Section 1, Paragraph 1 – Eligible Petitioner:

" Any Qualified Distribution Utility or Consortium of Qualified Distribution Utilities which intend to purchase an asset of the TRANSCO or its Buyer or Concessionaire may petition the ERC for such assets to be classified as a sub-transmission asset based on the established functional standard and the criteria as provided in Section 4, Rule 6, Part II of the IRR of the Act."

TRANSCO Comments:

The need to file a petition to reclassify assets 69 KV and above as sub-transmission assets would enable the distribution utilities to limit their acquisition to those highly reliable assets with higher potential load. This would leave TRANSCO with inferior and non-earning assets. Also, this would slow down TRANSCO'S sale process.

Article VI, Section 1, Paragraph 2 – Dispute Resolution:

"The ERC, in resolving such dispute, shall value the assets by taking into consideration the following valuation method: (a) the value allowed in the rate base used to compute the last approved TRANSCO rates net of accumulated depreciation; and (b) the net present value of the revenue that would be received from TRANSCO customers served by the asset over the economic life of such asset. Provided that the parties may be allowed to present evidence to show a more appropriate valuation method".

TRANSCO Comments:

TRANSCO has been determining the value of the assets based on reappraised sound values taking into account the cost of replacing the asset with a new one, and the physical and operating condition of the assets. The conditions of the assets are evaluated by TRANSCO'S field personnel in the presence of the Commission of Audit. In fact, TRANSCO has already completed the valuation of five (5) sale packages using the said pricing methodology.

The proposed valuation methods in the draft Guidelines of ERC would refer to the 1996 Book Values of the initially classified sub-transmission assets, which ERC used in the evaluation and eventually grant of the existing sub-transmission rates. While we appreciate the position of ERC that the sale price of the sub-transmission assets be rate neutral, we strongly believe that the 1996 values are outdated and that the values of the sub-transmission assets should be reappraised.

The methodology using the potential revenue of the assets would ignore the cost of installing the assets. The current ERC-approved rates which will be used in the computation of the potential revenue are average rates and are therefore independent of length of line. Short lines would then be overvalued, while long lines would be undervalued. Furthermore, the value of substations/transformers connected to the lines cannot be determined from the revenue.

TRANSCO POSITION:

Based on these considerations, TRANSCO would like to appeal for the following:

- 1) Classification of sub-transmission assets be based on voltage levels, as indicated in R.A. 9136, the Electric Power Industry Reform Act of 2001:

assets below 230 KV in the Luzon Grid, below 69 KV in the Visayas Grid and in the isolated distribution system, and below 138 KV in the Mindanao Grid.

- 2) Transco and/or distribution utilities be allowed to file with ERC a petition for reclassification of particular assets deemed by Transco and/or distribution utilities to merit exemption from the standard voltage classification criteria as specified in the preceding item.
- 3) Valuation be based on reappraised sound value of the asset, or sound value in the books whichever is higher.

For your consideration.

Very truly yours,



ALAN T. ORTIZ, Ph.D.
President and CEO
TRANSCO