

**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 assets of at least equivalent to one (1) kilometer of the line being purchased.
- 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 (Sustained Average Interruption Frequency Index [SAIFI] or Interruption Frequency Rate [IFR] – 50% and Sustained Average Interruption Duration Index [SAIDI] or Cumulative Interruption Time [CIT] – 50%). The standard is set at 20 times for SAIFI or IFR and 45 hours for SAIDI or CIT. Excluded events specifically approved for a DU or group of DUs or in the Guidelines for Reliability Standards for DUs shall not be included in the computation of reliability performance. A Distribution Utility not meeting the criterion shall provide an explanation to be considered by the ERC.
- 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 ERC.

A Distribution Utility who fails to meet any of the criteria above-prescribed may, in the alternative, submit an Operation and Maintenance contract with TransCo or another Distribution Utility 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 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.
- 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.

The Distribution Utility may submit other relevant information to be considered by the ERC in determining the financial capability of such Distribution Utility.

A Distribution Utility who fails to meet any of the criteria above-prescribed may, in the alternative, submit to the ERC 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), subject to but not limited to the following conditions:

- a) Payment shall be for a maximum period of twenty (20) years but not less than the remaining life of the subject asset;
- b) No down payment will be required;
- c) Grace period of one year; and
- d) Interest shall be less than the market rate

The ECs may source the funds for buying the asset, as well as the cost of Right-of-Way (ROW) acquisition, 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, as well as the cost of ROW acquisition 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.

**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 subtransmission asset shall be valued in reference to the SKM valuation or any subsequent valuation as approved by the Commission.
- c) In the absence of the SKM Valuation of certain sub-transmission assets for sale, the agreed price between the DU and TransCo shall be considered. The DU shall endeavor to enter into an agreement to the advantage of its consumers.

**Section 3.** x x x

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

**Section 5. TransCo Rates** – TransCo will continue to bill any uncollected connection and residual charges for a period of one year from the date the parties execute and implement a Deed of Conditional Sale or Transfer of Possession or similar documents over the sale of the subtransmission asset after the ERC’s approval of sale. TransCo will likewise continue to bill the existing subtransmission rates to any entity connected to the Subtransmission Assets that have not been acquired by a Qualified Distribution Utility or Qualified Consortium.

**Section 6.** The rates to be imposed on the end-users directly connected to the subject asset shall be the TransCo’s approved connection and residual charges for a period not exceeding exceed six (6) months from the date the parties execute and implement a Deed of Conditional Sale or Transfer of Possession or similar documents over the sale of the subtransmission asset. Within the said six (6) month period, the DU and the directly connected end-users shall endeavor to come up with a mutually acceptable rate and file said agreement with the ERC for approval, otherwise, the same cannot be charged to the end-user. In case of disagreement, the ERC shall resolve the same.

**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.”