

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



IN THE MATTER OF THE APPLICATION FOR THE APPROVAL OF THE SALE OF THE PACEMCO- SURIGAO 69 kV LINE OF THE NATIONAL TRANSMISSION CORPORATION (TRANSCO) TO SURIGAO DEL NORTE ELECTRIC COOPERATIVE, INC. (SURNECO), AS COVERED BY A LEASE PURCHASE AGREEMENT (LPA) DATED 28 DECEMBER 2012

ERC CASE NO. 2014-058 RC

NATIONAL TRANSMISSION CORPORATION (TRANSCO) AND SURIGAO DEL NORTE ELECTRIC COOPERATIVE, INC. (SURNECO),

Applicants.

D O C K E T E D
Date: MAR 17 2016
By: [Signature]

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ORDER

On 13 May 2014, the National Transmission Corporation (TRANSCO) and Surigao del Norte Electric Cooperative, Inc. (SURNECO) filed a joint application for the approval of the sale of the Pacemco-Surigao 69 kV Line of TRANSCO to SURNECO, as covered by a Lease Purchase Agreement (LPA) dated 28 December 2012.

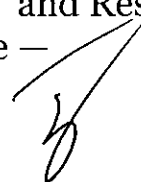
In support of said application, TRANSCO AND SURNECO alleged, among others, the following:

1. That Applicant TRANSCO is a government-owned-and-controlled corporation duly created pursuant to the *Electric Power Industry Reform Act of 2001 (EPIRA)*, with principal

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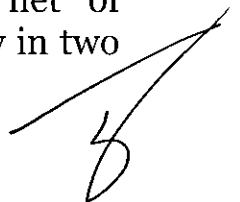
- office address at the TRANSCO Main Bldg., Quezon Avenue corner BIR Road, Diliman, Quezon City, Philippines. It may be served notices and summons through its undersigned counsel;
2. Applicant SURNECO is an electric distribution utility (DU) duly organized and existing under the laws of the Republic of the Philippines, with principal office address at 1308 Corner Narciso and Espina Streets, Surigao City, Caraga Region, Philippines. It may be served notices and summons through its legal counsel;
 3. By virtue of Section 8 of the EPIRA, TRANSCO assumed the electrical transmission functions of the National Power Corporation (NPC) and its authority and responsibility for the planning, construction, and centralized operation and maintenance of the high voltage transmission facilities, including grid interconnections and ancillary services. The EPIRA also mandates the segregation of the transmission and sub-transmission functions and assets for transparency and disposal;
 4. Pursuant thereto, the Commission promulgated on 17 October 2003 the *Guidelines to the Sale and Transfer of the TRANSCO's Sub-transmission Assets (STAs) and the Franchising of Qualified Consortiums (ERC Guidelines)*, as amended by TRANSCO Board Resolution No. 03, Series of 2005, dated 17 March 2005, which sets forth, among others, the standards to distinguish TRANSCO's transmission assets from its sub-transmission assets (STAs) and establish the approval process prior to the final sale and transfer of STAs to DUs;
 5. Consistent with the ERC Guidelines, TRANSCO issued Board Resolution No. TC-2003-067, dated 28 November 2003 [Annex "B"], and adopted its own *Guidelines on the Sale of Sub-transmission Assets (TRANSCO Guidelines)* [Annex "A"], as amended by TRANSCO Board Resolution No. TC-2004- 009 dated 16 March 2004 [Annex "C"];
 6. On 16 July 2011, the ERC issued Resolution No. 15, Series of 2011, entitled *A Resolution Adopting the Amended Rules for the Approval of the Sale and Transfer of TRANSCO's Subtransmission Assets and the Acquisition by Qualified Consortiums*, the relevant provisions of which read:

Article V, Section 6. TRANSCO/NGCP's Uncollected
Deferred Connection Charges and Residual
Subtransmission Charge —



For acquiring electric cooperatives (ECs), any uncollected TRANSCO/NGCP's connection and residual charges resulting from the deferred charges as approved by the ERC shall be capitalized or included in the acquisition cost of the subject assets. The amount shall be based on previous year's charges. For sale of subtransmission assets prior to this amendment, wherein the deferred charges were not yet capitalized, TRANSCO may continue to bill and collect the connection and residual charges resulting from the deferred charges as approved by the ERC. (Emphasis ours.)

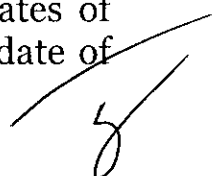
7. After a thorough evaluation and on the basis of the aforesaid ERC Guidelines, TRANSCO has determined that the PACEMCO-SURIGAO 69 kV LINE is a sub-transmission asset. Attached to the Application are the Report stating that the Asset for Sale is a Sub-transmission Asset, the List of STA/s for Sale, and the Single Line Diagram, respectively marked as Annexes "D", "E", and "F";
8. TRANSCO has likewise established that SURNECO meets the technical and financial criteria to purchase, operate, maintain, upgrade, and expand the PACEMCO-SURIGAO kV LINE, located within the latter's franchise area. Copies of the Technical Qualification Evaluation, Financial Qualification Evaluation, Franchise Description, and Audited Financial Statements of SURNECO as of 31 December 2010 and 31 December 2011 are attached as Annexes "G", "H", "I", and "J", respectively.
9. On 13 December 2012, the SURNECO Board of Directors issued Board Resolution No. 169, Series of 2012 [Annex "K"], which authorized General Manager Danny Z. Escalante and Board President Rolando C. Madelo to execute a Lease Purchase Agreement with TRANSCO for the acquisition of the subject asset;
10. On 28 December 2012, TRANSCO and SURNECO concluded a Lease Purchase Agreement [Annex "L"] covering the subject STA amounting to **Nine Million Twenty-Six Thousand Six Hundred Eighty-Three and 59/100, Philippine currency (PhP 9,026,683.59) plus 12% VAT** net of adjustments and deductions, which SURNECO shall pay in two



- hundred forty (240) equal monthly installments, as per attached Schedule of Payments [Annex "M"];
11. Said purchase price is fair and reasonable as it represents the disposal value of the subject STAs based on potential revenue. A copy of the Asset Valuation Computation is attached as Annex "N";
 12. It bears stressing that SURNECO is the only qualified DU that is connected to the subject asset per Certification dated 18 March 2013 [Annex "O"];
 13. TRANSCO and SURNECO also submitted a Draft Deed of Absolute Sale [Annex "P"] to establish that the terms thereof are reasonable, fair, and beneficial to the consumers;
 14. The proposed sale is compliant with the EPIRA and its IRR, ERC's and TRANSCO's Guidelines on the Sale of *Sub-transmission Assets*, as well as relevant ERC Orders, Resolutions, and Issuances;
 15. The approval by the Commission of the Joint Application shall pave the way towards the attainment of reformation in the electricity industry pursuant to the mandates of the EPIRA and promote competitive pricing which would be beneficial to the consuming public; and
 16. The parties pray that the Commission will approve the sale of the PACEMCO-SURIGAO 69 kV LINE of TRANSCO to SURNECO under the terms set forth in their LPA dated 28 December 2012.

Finding the said application to be sufficient in form and in substance with the required fees having been paid, the same is hereby set for determination of compliance with the jurisdictional requirements, expository presentation, pre-trial conference, and presentation of evidence on **12 April 2016 (Tuesday) at nine o'clock in the morning (9:00 A.M.) at the SURNECO Main Office, 1308 Corner Narciso and Espina Streets, Surigao City, CARAGA Region, Philippines.**

TRANSCO and SURNECO are hereby directed to cause the publication of the attached Notice of Public Hearing in two (2) newspapers of general circulation in the Philippines at its own expense, twice (2x) for two (2) successive weeks, with the dates of publication being not less than seven (7) days apart and the date of



the last publication made not later than ten (10) days before the date of the scheduled initial hearing. It is also directed to inform the customers within SURNECO's franchise area, by any other means available and appropriate, of the filing of the instant application, its reasons therefor, and of the scheduled hearing thereon.

Let copies of the application, this Order, and the attached Notice of Public Hearing be furnished the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire, to send their duly authorized representatives at the scheduled hearing.

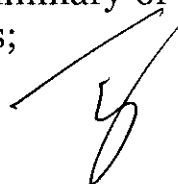
Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished the Offices of the Governor of Surigao del Norte and Mayors of Quezon City and the Cities and Municipalities within the franchise area of SURNECO for the appropriate posting thereof on their respective bulletin boards.

TRANSCO and SURNECO are hereby directed to furnish all those making requests therefor with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing and pre-trial conference, TRANSCO and SURNECO must submit to the Commission their written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidence of the actual posting and publication of the Notice of Public Hearing consisting of certifications issued to that effect, signed by the aforementioned Governors and Mayors or their duly authorized representatives, bearing the seals of their offices, and the affidavits of the Editors or Business Managers of the newspapers where said Notice of Public Hearing were published together with the complete issues of the said newspapers, and such other proofs of compliance with the requirements of the Commission.

TRANSCO and SURNECO, and all interested parties are directed to submit, at least five (5) days before the date of initial hearing and pre-trial conference, their respective Pre-Trial Briefs containing, among others:

- (a) A summary of admitted facts and proposed stipulation of facts;



- (b) The issues to be tried or resolved;
- (c) The documents or exhibits to be presented, stating the purposes thereof, and proposed markings therefor; and
- (d) The number and names of the witnesses, with their written testimonies in an individual affidavit form, to be attached to the Pre-Trial Brief.

Failure of TRANSCO and SURNECO to submit the required Pre-Trial Brief and Judicial Affidavits of their witnesses within the prescribed period shall be a ground for cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from said date of cancellation.

As part of the pre-trial conference, TRANSCO and SURNECO must also be prepared to make an expository presentation of their application, aided by whatever communication medium that they may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the application is all about and the reasons and justifications being cited in support thereof.

SO ORDERED.

Pasig City, 09 March 2016.



FOR AND BY AUTHORITY
OF THE COMMISSION:

JOSE VICENTE B. SALAZAR
Chairman and CEO

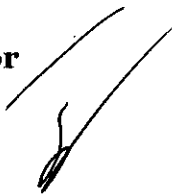
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Copy furnished:

1. **National Transmission Corporation (TRANSCO)**
Attention: Atty. Noel Z. de Leon, Atty. Leon T. Tapel, Jr., and Atty. Gina Lourdes D. Valeros
Counsel for Applicant TRANSCO
National Transmission Corporation
TRANSCO Main Building, Quezon Avenue corner BIR Road,
Diliman, Quezon City
2. **Atty. Ditas A. Lerios – Amboy**
Atty. Precious Ellen L. Pingol
Atty. Marvey Jay A. Gonzales
Counsel for Co-Applicant SURNECO
Lerios – Amboy Pingol & Gonzales Law Office
Units 1609-1610, Tycoon Centre,
Pearl Drive, Ortigas Center, Pasig City 1605
3. **Surigao del Norte Electric Cooperative, Inc. (SURNECO)**
1308 Corner Narciso and Espina Streets,
Surigao City, Caraga Region, Philippines.
4. **Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village
Makati City, Metro Manila
5. **Commission on Audit**
Commonwealth Avenue
Quezon City, Metro Manila
6. **Senate Committee on Energy**
GSIS Building, Roxas Boulevard
Pasay City, Metro Manila
7. **House Committee on Energy**
Batasan Hills
Quezon City, Metro Manila
8. **Office of the Provincial Governor**
Province of Surigao del Norte
9. **Office of the City Mayor**
Surigao City, Surigao del Norte
10. **Office of the Municipal Mayor**
Alegria, Surigao del Norte
11. **Office of the Municipal Mayor**
Bacuag, Surigao del Norte
12. **Office of the Municipal Mayor**
Claver, Surigao del Norte
13. **Office of the Municipal Mayor**
Gigaquit, Surigao del Norte



- 14. Office of the Municipal Mayor
Mainit, Surigao del Norte**
- 15. Office of the Municipal Mayor
Malimono, Surigao del Norte**
- 16. Office of the Municipal Mayor
Placer, Surigao del Norte**
- 17. Office of the Municipal Mayor
San Francisco, Surigao del Norte**
- 18. Office of the Municipal Mayor
Sison, Surigao del Norte**
- 19. Office of the Municipal Mayor
Taganaan, Surigao del Norte**
- 20. Office of the Municipal Mayor
Tubod, Surigao del Norte**
- 21. Office of the City Mayor
Quezon City**

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