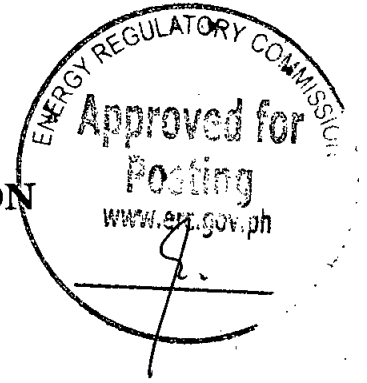


Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



IN THE MATTER OF THE APPLICATION FOR THE APPROVAL OF THE SALE OF VARIOUS SUB-TRANSMISSION LINES/ASSETS OF THE NATIONAL TRANSMISSION CORPORATION (TRANSCO) TO THE CONSORTIUM OF VISAYAN ELECTRIC COMPANY, INC. (VECO) AND CEBU II ELECTRIC COOPERATIVE, INC. (CEBECO II)

ERC CASE NO. 2016-145 RC

NATIONAL TRANSMISSION CORPORATION (TRANSCO) AND THE CONSORTIUM OF VISAYAN ELECTRIC COMPANY, INC. (VECO) AND CEBU II ELECTRIC COOPERATIVE, INC. (CEBECO II),

D O C K E T E D
Date: **OCT 12 2016**
By: *[Signature]*

Applicants.

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ORDER

On 28 June 2016, National Transmission Corp. (TRANSCO) and the consortium of Visayan Electric Co., Inc. (VECO) and Cebu II Electric Cooperative, Inc. (CEBECO II) [hereinafter, "Consortium"] filed their joint Application for the approval of the sale of various sub-transmission lines/assets of TRANSCO to the Consortium.

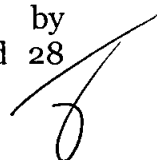
In support of said Application, TRANSCO, VECO, and CEBECO II alleged the following:

1. **TRANSCO** is a government-owned and controlled corporation created and existing by virtue of R.A. No. 9136,

[Signature]

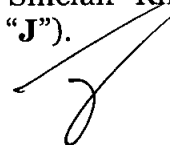
otherwise known as the *Electric Power Industry Reform Act of 2001* (EPIRA), with principal office address at the TRANSCO Main Building, Quezon Avenue corner BIR Road, Diliman, Quezon City.

2. **VECO** is an electric distribution utility (DU) organized and existing under the laws of the Republic of the Philippines, with principal office address in J. Panis Street, Banilad, Cebu City, Philippines. It is a duly authorized distribution utility of electric power in the municipalities of San Fernando, Minglanilla, Consolacion and Lilo-an and the Cities of Naga, Talisay, Cebu and Mandaue, all in the province of Cebu, pursuant to its franchise under Republic Act No. 9339.
3. **CEBECO II** is an electric cooperative (EC) duly organized and existing under the laws of the Republic of the Philippines, with principal office address in Malingin, Bogo City, Cebu, Philippines.
4. On 19 January 2016, VECO and CEBECO II entered into an Amended Consortium / Co-Ownership Agreement forming a Consortium for the specific purpose of jointly acquiring, operating and maintaining TRANSCO's sub-transmission assets subject matter of the instant *Joint Application*. Attached as Annex "A" is a copy of the Amended *Consortium/Co-Ownership Agreement*.
5. By virtue of Section 8 of the EPIRA, TRANSCO assumed the electrical transmission functions of the National Power Corporation, and the responsibility of the latter for the planning, construction and centralized operation and maintenance of high voltage transmission facilities, including grid interconnections and ancillary services.
6. Section 8 of the EPIRA and Rule 6, Section 8 (e) of the *EPIRA's Implementing Rules and Regulations (IRR)* also mandate the segregation of the transmission and sub-transmission functions and assets for transparency and disposal, and authorize TRANSCO to negotiate for, and to transfer such sub-transmission assets (STAs) and facilities to qualified distribution utilities (DUs).
7. Pursuant thereto, this Honorable Commission promulgated the "*Guidelines on the Sale and Transfer of the TRANSCO's Subtransmission Assets and the Franchising of Qualified Consortiums*" (ERC Guidelines) dated 17 October 2003, as amended by Resolution No. 3, Series of 2005 dated 17 March 2005 which set forth among others, the standards to distinguish TRANSCO's transmission assets from its sub-transmission assets and establish the approval process prior to the final sale and transfer of STAs to DUs.
8. Consistent with the ERC Guidelines, TRANSCO adopted its own Guidelines on the Sale of Subtransmission Assets (TRANSCO Guidelines) [Annex "B"] as approved by TRANSCO Board Resolution No. TC-2003-067 dated 28



November 2003 (Annex "C"), as further amended by TRANSCO Board Resolution No.TC-2004-009 dated 16 March 2004 (Annex "D").

9. On 16 July 2011, this Honorable Commission 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.*"
10. In accordance with the aforesaid ERC Guidelines, and based on a thorough evaluation conducted by TRANSCO, it was determined that the Compostela-Consolacion 69 kV line is a sub-transmission asset. Copies of the Report regarding the nature of the asset and List of STA/s for sale to the Consortium are attached as Annexes "E", "F" respectively.
11. On 26 December 2012, TRANSCO and the Consortium concluded a *Contract to Sell* (Annex "G") for the acquisition of the Compostela-Consolacion 69 kV line for the purchase price of Twenty Seven Million Eight Hundred Twenty Nine Thousand One Hundred Seventy Six and 48/100, Philippine currency (PhP27,829,176.48), which includes the twelve percent value-added tax (12% VAT) of Two Million Nine Hundred Eighty One Thousand Six Hundred Ninety Seven and 48/100, Philippine currency (PhP2,981,697.48). The length of the line indicated in the said Contract to Sell is 16.70 kilometers.
12. After subsequent verification with the National Grid Corporation of the Philippines (NGCP), and based on the revised Single Line Diagram (Annex "H"), it was established that the length of the line is 14.50 kilometers and not 16.70 kilometers, thereby necessitating the reduction of the purchase price.
13. On 17 March 2016, TRANSCO and the Consortium concluded an Amended Contract to Sell (Annex "I"), incorporating the reduced purchase price from that of PhP27,829,176.48 to that of Eighteen Million Two Hundred Six Thousand One Hundred Sixty Four and 40/100, Philippine currency (PhP18,206,164.40) plus 12% VAT of Two Million One Hundred Eighty Four Thousand Seven Hundred Thirty Nine and 73/100, Philippine currency (PhP2,184,739.73), or a total of Twenty Million Three Hundred Ninety Thousand Nine Hundred Four and 13/100, Philippine currency (PhP20,390,904.13), net of adjustments and deductions, which the Consortium shall pay in cash or in the form of Manager's or Cashier's check within sixty (60) calendar days from notice of the Honorable Commission's approval of this Joint Application.
14. Said purchase price is based on the 2014 Sinclair Knight Merz (SKM) rolled forward valuation (Annex "J").

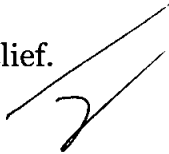


15. TRANSCO has clearly established that the Consortium satisfies the financial and technical capability criteria under Article IV of the ERC Guidelines in acquiring, operating, maintaining, upgrading and expanding the subject STAs.
16. In support of the above allegations are the following relevant documents:
 - a. Financial Qualification Evaluation of VECO and CEBECO II, respectively (Annexes "K" and "K-1");
 - b. Technical Qualification Evaluation of VECO and CEBECO II, respectively (Annexes "L" and "L-1");
 - c. Audited Financial Statements of VECO as of 31 December 2013 and 31 December 2014 (Annex "M"); and,
 - d. Audited Financial Statements of CEBECO II as of 31 December 2013 and 31 December 2014 (Annex "N").
17. Finally, applicants respectfully submit the following documents in compliance with the Honorable Commission's requirements:
 - a. Draft *Deed of Absolute Sale* (Annex "O");
 - b. Franchise Description (Annex "P");
 - c. List of Connected Distribution Utilities and Directly Connected Entities (Annex "Q");
 - d. VECO' *Secretary's Certificate* dated 22 October 2015 (Annex "R");
 - e. CEBECO II Board Resolution No. 119, Series of 2015 (Annex "S"); and,
 - f. CEBECO II Board Resolution No. 103, Series of 2012 (Annex "T").
18. The proposed sale has satisfied all of the requirements and criteria set by the EPIRA and its IRR, as well as the ERC and TRANSCO's Guidelines on the Sale of Subtransmission Assets.
19. The approval by this Honorable Commission of the instant Joint Application shall pave the way for the attainment of a reformed electricity industry under the EPIRA, which would ultimately best serve the interest of the consuming public.

PRAYER

WHEREFORE, it is most respectfully prayed of this Commission that the instant *Joint Application* for the approval of the sale of TRANSCO's sub-transmission assets in favour of the Consortium of VECO and CEBECO II under the terms provided in the *Amended Contract to Sell* dated 17 March 2016, be APPROVED.

Applicants also pray for other just and equitable relief.



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 hearing for the determination of compliance with jurisdictional requirements, Expository Presentation, Pre-trial Conference, and presentation of evidence on **09 November 2016 (Wednesday) at ten o'clock in the morning (10:00 A.M.) at CEBECO II's Danao Area Office, Tuburan Sur, Danao City, Cebu.**

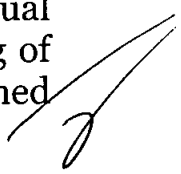
TRANSCO, VECO, and CEBECO II are hereby directed to cause the publication of the attached Notice of Public Hearing in two (2) newspapers of general circulation in the Philippines at their own expense, twice (2x) within two (2) successive weeks, the dates of publication not being less than seven (7) days apart, with the date of last publication made not later than ten (10) days before the date of the scheduled initial hearing. They are also directed to inform the consumers within VECO and CEBECO II's franchise area, by any other means available and appropriate, of the filing of the Application, the 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 Provincial Governor, the City and Municipal Mayors, and the Local Government Unit (LGU) Legislative Bodies within VECO and CEBECO II's franchise area for the appropriate posting thereof on their respective bulletin board.

TRANSCO, VECO, and CEBECO II 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, TRANSCO, VECO, and CEBECO II 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




Governor, Mayors, and LGU Legislative Bodies, 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, VECO, and CEBECO II, 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 therefore; 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, VECO, and CEBECO II 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.

TRANSCO, VECO, and CEBECO II 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, 20 September 2016.

**FOR AND BY AUTHORITY
OF THE COMMISSION:**

ERC
Office of the Chairman



J-2016-012-OC-05133

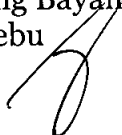
JOSE VICENTE B. SALAZAR
Chairman and CEO

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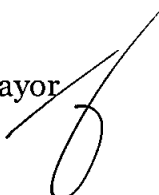
Copy furnished:

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3. Atty. Alan Byrne Gaviola
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5. Commission on Audit
Commonwealth Ave., Quezon City
6. The Senate Committee on Energy
GSIS Building, Roxas Boulevard, Pasay City
7. The House Committee on Energy
Batasan Hills, Quezon City

8. The City Mayor
Cebu City
9. The Sangguniang Panlungsod
Cebu City
10. The City Mayor
Naga City, Cebu
11. The Sangguniang Panlungsod
Naga City, Cebu
12. The City Mayor
Talisay City, Cebu
13. The Sangguniang Panlungsod
Talisay City, Cebu
14. The City Mayor
Mandaue City, Cebu
15. The Sangguniang Panlungsod
Mandaue City, Cebu
16. The City Mayor
Bogo City, Cebu
17. The Sangguniang Panlungsod
Bogo City, Cebu
18. The City Mayor
Danao City, Cebu
19. The Sangguniang Panlungsod
Danao City, Cebu
20. The Municipal Mayor
San Fernando, Cebu
21. The Sangguniang Bayan
San Fernando, Cebu
22. The Municipal Mayor
Minglanilla, Cebu
23. The Sangguniang Bayan
Minglanilla, Cebu
24. The Municipal Mayor
Consolacion, Cebu
25. The Sangguniang Bayan
Consolacion, Cebu



26. The Municipal Mayor
Lilo-an, Cebu
27. The Sangguniang Bayan
Lilo-an, Cebu
28. The Municipal Mayor
Borbon, Cebu
29. The Sangguniang Bayan
Borbon, Cebu
30. The Municipal Mayor
Carmen, Cebu
31. The Sangguniang Bayan
Carmen, Cebu
32. The Municipal Mayor
Catmon, Cebu
33. The Sangguniang Bayan
Catmon, Cebu
34. The Municipal Mayor
Compostela, Cebu
35. The Sangguniang Bayan
Compostela, Cebu
36. The Municipal Mayor
Daan-bantayan, Cebu
37. The Sangguniang Bayan
Daan-bantayan, Cebu
38. The Municipal Mayor
Medellin, Cebu
39. The Sangguniang Bayan
Medellin, Cebu
40. The Municipal Mayor
San Remigio, Cebu
41. The Sangguniang Bayan
San Remigio, Cebu
42. The Municipal Mayor
Sogod, Cebu
43. The Sangguniang Bayan
Sogod, Cebu
44. The Municipal Mayor
Tabogod, Cebu



45. The Sangguniang Bayan
Tabogod, Cebu
 46. The Municipal Mayor
Tabuelan, Cebu
 47. The Sangguniang Bayan
Tabuelan, Cebu
 48. The Municipal Mayor
Tuburan, Cebu
 49. The Sangguniang Bayan
Tuburan, Cebu
 50. The Provincial Governor
Province of Cebu
 51. The Sangguniang Panlalawigan
Province of Cebu
 52. National Grid Corporation of the Philippines (NGCP)
Quezon Avenue corner BIR Road, Diliman, Quezon City
 53. Philippine Chamber of Commerce and Industry (PCCI)
3/F, ECC Building, Sen. Gil Puyat Avenue, Makati City
 54. SCMD - ERC
17/ F, Pacific Center Building
San Miguel Avenue, Pasig City
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