

[ERC, October 17, 2003]

**GUIDELINES TO THE SALE AND TRANSFER OF THE TRANSCO'S
SUBTRANSMISSION ASSETS AND THE FRANCHISING OF
QUALIFIED CONSORTIUMS**

Pursuant to Sections 7 and 8 of Republic Act No. 9136 or the Act and Rule 6 of the Implementing Rules and Regulations (IRR) of the Act, the Energy Regulatory Commission (ERC) hereby adopts and promulgates these guidelines to:

- a) Set the standards to distinguish the National Transmission Corporation's (TRANSCO's) Transmission Assets from its Subtransmission Assets;
- b) Establish an approval process prior to the final sale and transfer of transmission Assets to distribution utilities; and
- c) Govern the granting of franchise to the consortium or juridical entity to operate the Subtransmission Assets.

**Article I
General Provisions**

These Guidelines shall have the following objectives:

- a. To ensure the continued quality, reliability, security and affordability of electric service to end users;
- b. To ensure the transparent and reasonable prices of electric service in a regime of free and fair competition and to achieve greater operational and economic efficiency;
- c. To enhance the inflow of private capital and broaden the ownership base of Subtransmission Assets; and
- d. To provide for the orderly and transparent sale and transfer of Subtransmission Assets of the TRANSCO or its Buyer or Concessionaire to Qualified Distribution Utilities and Qualified Consortiums.

**Article II
Scope and Definition of Terms**

SECTION 1. Scope - These Guidelines shall apply to:

- a) TRANSCO;
- b) Buyer or Concessionaire of the TRANSCO; and
- c) Any Qualified Distribution Utility or Qualified Consortium that intend to or shall acquire and assume responsibility for operating, maintaining, upgrading, and expanding a Subtransmission Asset of the TRANSCO or its Buyer or Concessionaire.

These Guidelines shall not apply to the assets owned by entities other than the TRANSCO or its Buyer or Concessionaires.

SECTION 2. Definition of Terms - As used in these Guidelines, the following terms shall have the following respective meanings:

a. "**Act**" unless otherwise stated, shall refer to Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001";

b. "**Buyer or Concessionaire**" shall refer to the qualified party awarded the sale agreement or concession contract for the Transmission Assets;

c. "**Consortium**" shall refer to the juridical entity formed by and composed of two or more Distribution Utilities each of whom is connected to one or more Subtransmission Assets in common with one or more other Distribution Utilities;

d. "**Current Sound Value**" shall refer to the market value of an asset taken or the current replacement cost of the asset less accumulated depreciation based on the actual condition of the asset.

e. "**Directly Connected Entity**" shall refer to each End-User, person or entity other than a Qualified Distribution Utility, the members of a Franchised Consortium or TRANSCO or its Buyer or Concessionaire that is directly connected to the Subtransmission Assets;

f. "**Directly Connected Generators**" shall refer to those generating facilities that normally supply electricity to the Grid and where electricity normally flows from the generator to the Grid;

g. "**Distribution Utility**" shall refer to any electric cooperative, private corporation, government-owned utility or existing local government unit which has an exclusive franchise to operate a distribution system in accordance with its franchise and the Act;

h. "**End-User**" shall refer to any person or entity requiring the supply and delivery of electricity for its own use;

i. "**Energy Regulatory Commission**" or "**ERC**" shall refer to the regulatory agency created by Section 38 of the Act;

j. "**Franchised Consortium**" shall refer to a Qualified Consortium that has been granted a franchise to own, operate, maintain, expand and/or upgrade one or more Subtransmission Assets;

k. "**Grid**" shall refer to the high voltage backbone system of interconnected transmission lines, substations and related facilities, located in each of Luzon, Visayas and Mindanao, or as may otherwise be determined by the ERC in accordance with Section 45 of the Act;

l. "**National Transmission Corporation**" or "**TRANSCO**" shall refer to the corporation organized pursuant to the Act to acquire all the Transmission Assets of the National Power Corporation (NPC);

m. "**Qualified Consortium**" shall refer to a Consortium of Distribution Utilities whose combined qualifications meet the technical and financial criteria established in Article IV hereof;

n. **"Qualified Distribution Utility"** shall refer to a Distribution Utility that meets the technical and financial criteria established in Article IV hereof;

o. **"Subtransmission Assets"** shall refer to facilities classified as Subtransmission Assets based on functional standards established in Article III hereof, including but not limited to step-down transformers used solely by load customers, associated switchyard/substation, control and protective equipment, reactive compensation equipment to improve customer power factor, overhead lines, and the land where such facilities/equipment are located. These include NPC and/or TRANSCO assets linking the transmission system and the distribution system, which are neither classified as generation nor transmission; and

p. **"Transmission Assets"** shall refer to the grid-wide electrical infrastructure through which electricity flows in large quantities between generators or generating plants consisting of several units or blocks of generators and the many more dispersed load centers. Transmission assets are typically characterized as long distance lines, high capacity switching and transformation stations, high degree of meshing of lines, stations that provide patch diversity, and sophisticated protection schemes that ensure security against grid-wide disturbances.

ARTICLE III

Criteria to Distinguish Transmission Assets from Subtransmission Assets

SECTION 1. Removal of References to Specific Voltage Levels - In classifying assets into Subtransmission Assets and Transmission Assets, all references to voltage levels as provided in Section 7 of the Act and Section 5, Rule 6 of the IRR shall not apply following the effectivity of these Guidelines. The assets shall be classified based on the technical and functional criteria specified in Section 2 that follows. Pending disposal in accordance with these Guidelines assets currently classified as Subtransmission Assets are deemed Transmission Assets only for the purpose of necessary and justifiable upgrade and expansion in accordance with Section 8 of the Act.

SECTION 2. Technical and Functional Criteria - The assets shall be classified based on the technical and functional criteria enumerated in Sections 4 and 6, Rule 6, Part II of the IRR of the Act, including, but not necessarily limited to, the following:

a. Directly Connected Generators

Lines, power transformers and other assets held by TRANSCO or its Buyer or Concessionaire, which allow the transmission of electricity to a Grid from one or more Directly Connected Generators, shall be classified as Transmission Assets.

b. Directly Connected End-Users

Radial lines, power transformers, related protection equipment, control systems and other assets held by TRANSCO or its Buyer or Concessionaire which directly connect an End-User or group of End-Users to a Grid and are exclusively dedicated to the service of that End-User or group of End-users shall be classified as Subtransmission Assets.

c. Directly Connected Load-End Substation

Radial lines, power transformers, related protection equipment, control systems and other assets held by TRANSCO or its Buyer or Concessionaire which directly connect

a load-end substation of one or more Distribution Utilities to a Grid but no Directly Connected Generators shall be classified as Subtransmission Assets.

Article IV

Qualification Criteria for Distribution Utilities or Consortium of Distribution Utilities

SECTION 1. Technical Capability Criteria - The technical criteria for qualification shall include but not be 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 as its own expense.

b. Should have a minimum inventory of materials used for immediate replacement during emergency repair and maintenance of the line.

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% on reliability performance for the most current year (Interruption Frequency Rate - 50% and Cumulative Interruption Time - 50%). The standard is set at 5 times for Interruption Frequency Rate and 45 hours for Cumulative Interruption Time. A Distribution Utility not meeting the criterion may provide an explanation to be considered by the Commission.

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.

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 0.80:1 or a quick ratio of not less than 0.70:1. 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;