

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 ZAMBOANGA DEL NORTE ELECTRIC COOPERATIVE, INC. (ZANECO), AS COVERED BY A LEASE PURCHASE AGREEMENT DATED 26 DECEMBER 2012 AND A SUPPLEMENTAL AGREEMENT DATED 19 SEPTEMBER 2013

ERC CASE NO. 2014-065 RC

NATIONAL TRANSMISSION CORPORATION (TRANSCO) AND ZAMBOANGA DEL NORTE ELECTRIC COOPERATIVE, INC. (ZANECO),

DOCKETED
Date: JUL 08 2014
By: _____

Applicants.

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NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on May 26, 2014, the National Transmission Corporation (TRANSCO) and the Zamboanga Electric Cooperative, Inc. (ZANECO) filed a joint application for approval of the sale of various sub-transmission lines/assets of TRANSCO to ZANECO as covered by a Lease Purchase Agreement dated 26 December 2012 and a Supplemental Agreement dated 19 September 2013.

In the said joint application, TRANSCO and ZANECO alleged, among others, that:

1. TRANSCO is a government-owned-and-controlled corporation created pursuant to 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. ZANECO is an electric distribution utility (DU) duly organized and existing under the laws of the Republic of the Philippines, with principal office address at General Luna St., Central Barangay, Dipolog City, Philippines;
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 October 17, 2003 the *Guidelines on 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. 3, Series of 2005 dated March 17, 2005 which set forth, among others, the standards to distinguish TRANSCO's transmission assets from its sub-transmission assets (STA), and establish the approval process prior to the final sale and transfer of STAs to DUs;
5. Consistent with the ERC Guidelines, TRANSCO adopted its own *Guidelines on the Sale of Sub-transmission Assets (TRANSCO Guidelines)* [Annex "A"] as approved by TRANSCO Board Resolution No. TC-2003-067 dated November 28, 2003 [Annex "A-1"], as further amended by TRANSCO Board Resolution No. TC-2004-009 dated March 16, 2004 [Annex "A-2"];
6. On July 16, 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 Sub-transmission Assets and the Acquisition by Qualified

Consortiums”, the relevant provisions of which read, as follows:

“Article V, Section 6. TRANSCO/NGCP’s Uncollected Deferred Connection Charges and Residual Sub-transmission 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 sub-transmission 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 based on the aforesaid ERC Guidelines, TRANSCO has determined that the following assets are sub-transmission assets:
 - a. Molave-Polanco 69 kV line;
 - b. Polanco-Siom 69 kV line;
 - c. Polanco-Dapitan 69 kV line; and,
 - d. Ipil- Salug 69 kV line.

Attached as **Annexes “D”, “E” and “F”**, respectively, are copies of the Report that the assets for sale meet the criteria for STAs, the List of STA/s for sale, and the Single line diagram;

8. TRANSCO has likewise established that ZANECO meets the technical and financial criteria to purchase, operate, maintain, upgrade and expand the subject assets which are located within its franchise area. Copies of the Technical and Financial Qualification Evaluations, Franchise Description and Audited Financial Statements of ZANECO as of December 31, 2010 are attached as **Annexes “G”, “H”, “I” and “J”**, respectively;
9. On August 19, 2012, the ZANECO Board of Directors issued Board Resolution No. 094, Series of 2012, [Annex “K”] relative to the acquisition of the subject assets;

10. On December 26, 2012, TRANSCO and ZANECO concluded a Lease Purchase Agreement [**Annex "L"**] covering the subject STAs amounting to **Two Hundred Sixty-Six Million One Hundred Sixty-Three Thousand One Hundred Thirty-Five Pesos (PhP266,163,135.00) plus twelve percent value added tax (12% VAT)**, net of adjustments and deductions;
11. Said purchase is fair and reasonable as it represents the disposal value of the subjects STAs based on potential revenue. A copy of the Asset Valuation Computation is attached as **Annex "M"**;
12. It bears stressing that aside from ZANECO, there is also another qualified distribution utility called Zamboanga del Sur 1 Electric Cooperative, Inc. (ZAMSURECO I) which is connected to the subject assets, as shown by **Annex "N"**;
13. However, ZAMSURECO I waived its right to the acquisition of the subject assets in favor of ZANECO, as evidenced by the ZAMSURECO 1 Board Resolution No. 090, Series of 2012 dated December 10, 2012;
14. On December 26, 2012, ZANECO sent TRANSCO a letter (**Annex "P"**) requesting for the exclusion of the Molave-Polanco 69 kV line from the sale contract due to the ongoing project of the National Grid Corporation of the Philippines (NGCP), whereby the Aurora-Polanco 138 kV line will pass through ZANECO's franchise area;
15. ZANECO intends to connect with NGCP's Aurora-Polanco 138 kV line instead of TRANSCO's Molave-Polanco 69 kV line. The Supplemental agreement (**Annex "Q"**) which excludes the Molave-Polanco 69 kV line from the sale contract was concluded by TRANSCO and ZANECO on September 19, 2013;
16. By virtue of the aforesaid Supplemental Agreement, the contract price was reduced from **Two Hundred Sixty-Six Million One Hundred Sixty-Three Thousand One Hundred Thirty Five Pesos (PhP266,163,135.00) plus twelve percent value added tax (12% VAT)**, to **One Hundred Sixty-Eight Million Two Hundred Sixty-One Thousand Four Hundred Thirty Seven Pesos (PhP168,261,437.00) plus twelve percent value added tax (12% VAT)**, which ZANECO undertakes to pay in two hundred forty (240) equal monthly installments, as per the attached Schedule of Payments (**Annex "R"**);

17. They also hereby submit a Draft Deed of Absolute Sale (**Annex "S"**) in support of their Joint Application;
18. The proposed sale is compliant with the EPIRA and its IRR, the *ERC and TRANSCO Guidelines on the Sale of Sub-transmission Assets*, as well as relevant *ERC Orders, Resolutions and Issuances*;
19. The approval by the Commission of the instant joint application shall pave the way for the attainment of a reformed electricity industry under the EPIRA, towards a competitive regime/cost of electricity through open access and customer choice of supplier of electricity, which would ultimately best serve the interest of the consuming public; and
20. They pray that after due notice and hearing, judgment be rendered **APPROVING** the sale of the following STAs to ZANECO, under the terms set forth in the Lease Purchase Agreement dated December 26, 2012 and the Supplemental Agreement dated September 19, 2013:
 - a. Molave-Polanco 69 kV line;
 - b. Polanco-Siom 69 kV line;
 - c. Polanco-Dapitan 69 kV line; and,
 - d. Ipil- Salug 69 kV line.

The Commission has set the joint application for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on **August 6, 2014 (Wednesday) at one o'clock in the afternoon (1:00 P.M.) at the ZANECO Office, General Luna St., Central Barangay, Dipolog City.**

All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and title of the proceeding and stating: (1) the petitioner's name and address; (2) the nature of petitioner's interest in the subject matter of the proceeding, and the way and manner in which such interest is affected by the issues involved in the proceeding; and (3) a statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the proceeding may file their opposition to the joint application or comment thereon at any stage of the proceeding before the applicants conclude the presentation of their evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who may wish to have a copy of the joint application may request the applicants, prior to the date of the initial hearing, that they be furnished with a copy of the joint application. The applicants are hereby directed to furnish all those making such request with copies of the joint application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the joint application and other pertinent records filed with the Commission during the usual office hours.

WITNESS, the Honorable Chairperson, **ZENAIDA G. CRUZ-DUCUT**, and the Honorable Commissioners, **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, and **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, Energy Regulatory Commission, this 30th day of June, 2014 at Pasig City.


ATTY. FRANCIS SATURNINO C. JUAN
Executive Director III


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