

National Transmission Corporation

2010 Accomplishment Report

Introduction

Pursuant to R.A. 9136 and R.A. 9511, TRANSCO's transmission business was turned over to NGCP on 15 January 2009. Thereafter, TRANSCO was charged with the monitoring of NGCP's compliance with technical and regulatory obligations as provided in the Concession Agreement. It was primarily for this purpose that TransCo formed the Concession Contract Management Group.

TransCo remains concerned with the utilization by NGCP of the transmission assets as these have remained government property. TransCo must also be ready to take over in the event that the Concessionaire becomes unable to fulfill its commitments, covenants, and obligations during the 25-year concession period. Hence, regular monitoring is necessary.

Below are TransCo's major accomplishments in 2010.

- A. **Inspection of Transmission Assets.** Pursuant to the Concession Agreement, TransCo conducted various inspections of transmission assets operated and maintained by NGCP. Among the assets inspected from August 2009 up to May 2010 are those situated in the Bicol, Ilocos and Cebu areas.

The TRANSCO inspection teams were focused mainly on NGCP's compliance with the Concession Agreement, the Philippine Grid Code and other applicable laws, regulations and issuances. Results of the inspections were submitted to NGCP for comments and action plans.

After the completion of the first round of inspections, TransCo inspection teams conducted surveillance inspections in Luzon, Visayas and in Mindanao to verify the result of NGCP action plans. Subsequently, they notified NGCP about some uncorrected observations, and suggested solutions therefor.

- B. **Inspection of Projects Under Construction (PUCs).**

The Concession Agreement provides that NGCP shall manage the construction and completion of all PUCs that have not been commissioned and rendered serviceable in accordance with the Construction Management Agreement. PUCs include forty two (42) transmission projects listed in Schedule 2 and defined under Section 4.02 of the Concession Agreement. Upon completion, PUCs shall immediately form part of the Transmission Grid.

For 2010, TransCo conducted twelve (12) inspections of various PUCs to check their progress vis-à-vis the contract, and possible changes and deviations from project schedules and deadlines. TRANSCO also facilitated the requisites to project

implementation imposed by other demand groups and government agencies such as COA, DOE and PMS, so that these are promptly addressed by the Concessionaire.

The construction and equipment installation methods of the concessionaire and/or its contractors were also checked to verify compliance with the industry and manufacturer standards.

The inspection activities were conducted on the following dates:

Inspected Projects	Inspection Dates
1. Sangali-Pitogo 138kV Transmission Line Project	April 26-29, 2010
2. Northern Panay Transmission Line Backbone Project	June 2-4, 2010
3. Mindanao Substation Expansion Project – 2005 (Sch. 1)	June 9-11, 2010
4. Aurora-Polanco 138kV Transmission Line Project	June 21-23, 2010
5. Wright-Calbayog 138kV Transmission Line Project	July 27-30, 2010
6. Visayas Capacitor 69kV Substation Project	August 2-4, 2010
7. Biñan-Sucacat 230kV Line 4 Project	Aug. 31-Sept.1, 2010
8. Biñan-Sucacat 230kV Line 4 Project (Parcellary Survey)	Sept. 2-3, 2010
9. Bicol Power Restoration Project (“Reming”)	Oct. 11-15, 2010
10. Dasmariñas-Rosario 115kV Transmission Line Project (Geological and Geotechnical Investigation)	Oct. 19-20, 2010
11. Restoration Works of Additional Ten (10) Toppled Towers Naga-Tayabas 500kV Transmission Line	Nov. 8-10, 2010
12. New Naga 138kV Substation Project	Dec. 7-9, 2010

Below is a tabulated status of the 42 PUCs as of 31 December 2010:

Status of Projects	As of Jan. 15, 2009	As of Dec. 31, 2010
Completed	8	13
Under Construction	10	23
Tendering Stage	11	1
Preconstruction Stage	13	5

C. Monitoring of NGCP Third Regulatory Reset Application with the ERC.

There were two (2) facets to the involvement of TransCo in the Third Regulatory Reset Application of NGCP. First, TransCo had its own inputs in the regulatory application following Section 5.08 of the Concession Agreement allowing such filing of recovery for relevant TransCo expenses. Second, as asset owner, TransCo monitors how the concessionaire proposes to utilize the assets and the

corresponding recovery for the use thereof, and for the provision of necessary services.

TransCo's Third Regulatory Reset Team (TRRT) identified reasonable TransCo expenses that could be included in the regulatory reset filing. TransCo submitted the final filing package to NGCP on 14 December 2009 and this was included by NGCP in its Third Regulatory Application filed before the Energy Regulatory Commission on 18 December 2009. It was also TransCo which provided all justifications and legal work pertaining to the TransCo portion.

Following the application, TransCo actively participated in the series of hearings, call for comments and public consultations from February to August 2010 on both the TransCo portion and the overall filing in general. When the Draft Determination was issued by ERC on 15 July 2010, TransCo initiated the preparation of the TransCo comments as well as the collection of inputs from other concerned groups.

Following the release by the ERC of the Final Determination on the case on 22 November 2010, TransCo prepared the Motion for Reconsideration with ERC on several items directly concerning TransCo.

D. Monitoring NGCP's environmental compliance. TransCo monitored the Concessionaire's compliance with the requirements relative to environmental permits and maintained copies of available permits consistent with Section 7.04 (Permits, Licenses, and Governmental Approvals) of the Concession Agreement. Further, TransCo closely looked into NGCP's environmental compliance to ensure that the assets are used in an environment-friendly operation. TransCo inspected various NGCP Districts in Northern Luzon, Visayas, and Mindanao, prepared reports and provided NGCP with the findings of the inspections.

E. Implementation of Executive Order No. 701. Former President Gloria Arroyo's Executive Order No. 701, dated 22 January 2009, directed TransCo to provide discounted transmission rates to HHIC-Philippines and to acquire its connection assets in Subic.

The grant of discounted transmission rate was accordingly complied with starting March 2008 and jointly granted and implemented with the National Power Corporation. Discounts are being reimbursed through the Industry Competitiveness Fund created under Executive Order No. 796.

The acquisition of connection assets, on the other hand, awaits further instruction/advice from the new administration and direction from the TransCo Board. Funding for the acquisition has been provided by the DBM.

F. Management of Data Room. TransCo continues to maintain its Data Room, a repository of all relevant records pertaining to the actions of the concessionaire in fulfilling its obligations as well as to results of operations to ensure that relevant Concession records are maintained. In 2010, the Corporate IS/IT group worked on

the design which consequently led to the implementation of the computerized data management system.

G. Pursuit of Proposed TransCo-NGCP Operational Protocol. TransCo transmitted to NGCP its proposed set of protocols in 2009. The protocols are anchored on the transferred rights and responsibilities of TRANSCO to the Concessionaire under subsection 2.01 of the Concession Agreement. To this date, however, said documents are still being reviewed by NGCP for its concurrence.

Following is the list of Protocols proposed by TransCo to NGCP:

- Protocol on the Provision of Documents by NGCP to TransCo pursuant to Sections. 7.03, 10.01 and 10.05 of the Concession Agreement;
- Protocol on the Regulatory Applications pursuant to Sec. 10.05 of the Concession Agreement; and,
- Protocol on the Provision of Assignability of Contracts pursuant to Sec. 3.03h of the Concession Agreements

H. Reports and Updates to Government Agencies. TransCo submitted regular updates on TransCo's EPIRA mandate to the Department of Energy and the Joint Congressional Power Commission (JCPC) and other reportorial requirements of ERC, NEDA, PMS-Malacañang, DOE, and COA. TransCo also provided inputs on energy issues, House Bills (comments on various House Bills 1135, 115, 311, 3253 and House Resolutions 21, 26, 56, 102, and 123), proposed revision of EPIRA and other data inquiry that were required by external agencies.

I. ERC Hearings and Public Consultation. TransCo attended relevant regulatory hearings pertaining to other applications of NGCP. In some instances TransCo filed for intervention.

J. Divestment of Sub-transmission Assets. In compliance to the mandate of the EPIRA and the ERC and TRANSCO Guidelines on the Sale of Subtransmission Assets, TransCo signed nineteen (19) sale contracts with distribution utilities (DUs). TransCo is currently negotiating the sale of about 600 ckt-kms of sub-transmission lines and 170 MVA of substation equipment to 21 interested DUs.

Of the 83 signed sale contracts, 36 contracts have been approved by the ERC. The rest of the sale contracts are for ERC filing, evaluation and approval.

The sale of Transco's sub-transmission assets involves some 131 sale contracts and 107 interested DUS/ECs. The sub-transmission assets include some 6,200 ckt-kms of mostly 69-kV transmission lines and 1,600 MVA of substation capacity.

- K. Management and Operation of Power Systems at Philippine Economic Zone Authority (“PEZA”).** TransCo continued to operate and maintain the electrical distribution systems of the four (4) Economic Zones (Bataan, Cavite, Mactan, Baguio) of PEZA. TransCo’s work entailed the operation, maintenance, testing, metering operations, billing and collection, energy audit of power consumption, and installation of equipment necessary for reliable and efficient operation of the power system.
- L. Handling of ROW and TransCo Cases.** Transco continued handling right-of-way (ROW) claims which accrued prior to the turnover of the transmission function to NGCP.
- M. Handling of Insurance Coverage of TransCo Assets.** TransCo joined PSALM, NPC and NGCP in the arrangement for the insurance of transmission assets with GSIS. While payment of the insurance premium is the responsibility of NGCP, TransCo as the asset owner, is Co-Assured. This is an ongoing concern.