

# NATIONAL TRANSMISSION CORPORATION

## Accomplishment Report for CY 2011

The National Transmission Corporation (TRANSCO) reorganized and adopted a smaller Table of Organization (TO) following the turnover of its transmission business to the National Grid Corporation of the Philippines (NGCP) on January 15, 2009. The new TO is composed of three (3) functional groups, namely: 1) Concession Contract Management Group (CCMG), 2) Legal, ROW and Land Management Services Group (LRLMSG), and 3) Corporate Services Group. One department, the Utility Management Department, is placed under the Office of the President (OP).

### Concession Contract Management Group (CCMG)

#### I. INSPECTION OF TRANSMISSION ASSETS

The inspection of transmission assets operated and maintained by the Concessionaire, NGCP, mainly focuses on the compliance of NGCP with the Concession Agreement and other applicable laws, regulations and issuances. TRANSCO's Inspection Teams conducted verification inspections in all 20 NGCP districts all over the Philippines as follows: North Luzon (7), South Luzon (3), Visayas (4), and Mindanao (6).

**A. Existing Transmission Facilities.** After the conduct of their inspection of transmission facilities for the period January to December 2011, the TransCo Inspection Teams were transmitted to NGCP for appropriate replies/comments and drawing up of action plans

TRANSCO's asset inspections are guided by the following references:

**Reference 1.** PGC 6.3.2.1: "The Grid Owner is responsible for providing and maintaining all Grid Equipment and facilities, including those required for maintaining Power Quality."

**Reference 2.** PGC 6.3.2.2: "The Grid Owner is responsible for designing, installing and maintaining the Grid's protection system that will ensure the timely disconnection of faulted facilities and equipment."

**Reference 3.** PGC 4.6.2.3: "The Grid Owner shall provide communication equipment for interconnection with SCADA System of the Grid."

**Reference 4.** PGC 6.3.2.5: "The Grid Owner is responsible for executing the instructions of the System Operator during emergency conditions."

**Reference 5.** PGC 3.2.3.4: "The Grid Owner and the System Operator shall ensure that the Long Duration Voltage Variations result in RMS values of the voltages that

are greater than 95 percent but less than 105 percent of the nominal voltage at any Connection Point during normal conditions.”

**Reference 6.** PGC 6.2.2.3: “The Security and Reliability of the Grid shall be based on the Single Outage Contingency criterion. This criterion specifies that the Grid shall continue to operate in the Normal State following the loss of one Generating Unit, transmission line, or transformer.”

**Reference 7.** PGC 6.2.3.1: “The Grid shall have adequate and coordinated primary and backup protection at all times to limit the magnitude of Grid disturbances when a fault or equipment failure occurs.”

**Reference 8.** PGC 4.6.2.1: “The Grid Owner shall develop and establish a standard system for Site and Equipment Identification to be used in identifying any Site or Equipment in all Electrical Diagrams, Connection Point Drawings, Grid operations instructions, notices and other documents.”

**B. Projects Under Construction (PUCs).** Projects Under Construction (PUCs) refer to the 42 transmission projects listed under Section 4.02 of the Concession Agreement.

TransCo conducted site inspections of ongoing transmission projects and held progress meetings with NGCP on PUC matters, inspected NGCP books and records, interviewed its concerned managers and staff, and verified testing and commissioning records of completed projects.

TransCo also provided assistance for the audit and inspection requirements of the Commission on Audit (COA), among others.

Tabulated below is the summary status of the 42 PUCs as compared to their status before Commencement Date (January 15, 2009):

<b>PUC Status</b>	<b>As of January 15, 2009</b>	<b>As of December 31, 2011</b>
Completed	8	18
Under Construction	10	16
Tendering Stage	11	5
Preconstruction Stage	13	3

The Concession Agreement states that NGCP shall manage the construction and completion of all PUCs that have not been commissioned and placed in service in accordance with the Construction Management Agreement. Upon completion, the PUCs shall immediately form part of the Transmission Grid.

By the end of December 31, 2011, TRANSCO was able to conduct 29 inspections of various PUCs to assess accomplishments and possible changes/deviations from the project schedules and deadlines as stipulated in the corresponding PUC contracts. The results of inspections likewise served as inputs on the requirements imposed by

other demand groups and government agencies such as COA, DOE and PMS and indicated NGCP's level of compliance.

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

Common observations cited for these inspections are associated with civil related works, steel structures and equipment, delays in delivery and completion, and right-of-way (ROW) problems.

**C. New Projects.** New projects are initiated by NGCP for the fulfillment of its responsibilities as the Grid System Operator. NGCP undertakes these at its own cost as guided by the Transmission Development Plan (TDP).

Part of the inspections in 2011 covered the San Jose and Kadampat Substations conducted in January 25-28 and July 25-29 respectively.

New Projects are defined under Section 5.04 of the Concession Agreement. Upon completion, these projects will form part of the transmission grid and will be included in TRANSCO's transmission assets. Below is the status of the New Projects undertaken by NGCP as of December 31, 2011:

<b>New Projects</b>	<b>Start</b>	<b>Target</b>	<b>Status</b>
2-90 MVAR Power Shunt Reactors @ Kadampat & San Jose Substations	June 2009	Oct. 2010	Energized: Kadampat – Jan. 24, 2011 San Jose – Dec. 30, 2010
Replacement Program for San Jose Substation 500 kV Power Transformer	June 2009	Oct. 2010	Energized: Sept. 2010
Doña Imelda (Araneta) Substation		July 2010	Energized on Sept. 21, 2010
Taytay (Dolores) Substation		June 2010	Energized on May 9, 2010
San Esteban-Laoag 230 kV Transmission Project (Stage 1)	Nov 2010	Jan 2012	5.66% completed
Binga-San Manuel 230 kV Transmission Project (Stage 1)	Mar 2011	Dec 2012	On-going checking of manufacturer's drawings
Tayabas S/S Expansion Project 1	Jun 2011	Sep 2012	Ongoing excavation & clearing works
Dasmariñas EHV S/S Expansion Project (Stage 1)	Sep 2011	Nov 2012	On-going checking of manufacturer's drawings
Visayas S/S Reliability Project 1	Dec 2010	Apr 2012	8.21% completed

Visayas S/S Exp. Project 1	Apr 2011	May 2012	1.11% completed
Mindanao S/S Reliability Project 1	Sep 2010	Dec 2013	82.43% completed

**D. Joint Inspection with COA of PUCs Infra Contracts' Progress Billing.** The Commission on Audit (COA) requested TRANSCO's assistance in its conduct of inspections of project accomplishments. Said inspections are mandatory for the first and last progress billings for infrastructure contracts costing P25M or more pursuant to COA Circular 2009-002 dated May 18, 2009. TRANSCO accompanied COA auditors in the inspection of the following projects:

1. Concepcion-Clark Project
2. New Gamu Project
3. North Luzon Upgrading Project I
4. Batangas Transmission Reinforcement Project,
5. Naga-Tayabas Restoration Works
6. Bicol Power Restoration & Outage Prevention Project
7. Bohol Backbone Transmission Project
8. Cebu-Negros Upgrading Project
9. Visayas PCB Replacement Project
10. Wright-Calbayog Transmission Line Project
11. Visayas Capacitor Project
12. Villanueva (Kirahon)-Maramag (Pulangui) 230 kV Transmission Backbone Project
13. Mindanao Substation Expansion Project-2005, Pulangui (Maramag)-Bunawan 230 kV T/L Project
14. Balo-i (Abaga)-Villanueva (Kirahon) 230 kV T/L Project
15. New Naga Substation Project
16. Sangali-Pitogo Transmission Line Project

## **II. COMPLIANCE MONITORING**

**A. NGCP's Third Regulatory Reset (2011-2015) Application with ERC.** There were two facets on the involvement of TRANSCO in the Third Regulatory Reset Application of NGCP. First, TRANSCO had its own inputs/portion 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 make use of the assets and the corresponding recovery for the use thereof and for the provision of necessary services

TRANSCO's Third Regulatory Reset Team (TRRT), composed of members from various departments led by CCMG, prepared TRANSCO's inputs. The TRRT identified reasonable TRANSCO expenses that could be included in the regulatory reset filing. TRANSCO submitted the final filing package to NGCP on December 14, 2009 and this was consequently included by NGCP in its Third Regulatory Application filed before the Energy Regulatory Commission on December 18, 2009. NGCP and TRANSCO

agreed that the latter would provide all justifications and legal work on the TRANSCO portion.

To date, TRANSCO continues to pursue discussion/coordination with NGCP on the approved items under the Third Regulatory period. At the same time, TRANSCO notes that NGCP has already been collecting the approved revenues for the Third Regulatory Period.

**B. TRANSCO's Pending Applications with the ERC.** The Energy Regulatory Commission (ERC), in its Decision dated July 6, 2011 approved TRANSCO's application filed on December 5, 2008 docketed as ERC Case No. 2008-061RC: Force Majeure (FM) Event Regulated FM Pass-through for Mindanao Tower Sabotage. As approved by ERC, TRANSCO is authorized to collect the FME pass-through costs from the Mindanao Grid customers for twenty four (24) months and is likewise directed to pay the ERC-computed permit fee. On December 2, 2011, TRANSCO filed a Motion for Clarification on the case but at the same time settled the payment of the required permit fee to the ERC.

In addition, ERC Case No. 2008-041RC entitled, In the Matter of the Application for the Approval of the Ancillary Services Procurement Agreement (ASPA) between the National Transmission Corporation and the National Power Corporation for the Panitan Modular Diesel Power Plant was approved by ERC on May 16, 2011. TRANSCO had previously advanced payment to NPC for this and now aims to recover the same through the collection of NGCP of the approved rates.

**C. Rate Cases Filed by NGCP with ERC and ERC Hearings Involving NGCP.** The Concession Agreement provides that NGCP is the sole regulated entity before the Energy Regulatory Commission (ERC). Hence, all rate cases are now being filed and attended to by NGCP. TRANSCO monitors, reviews and provide comments on some of the rate cases particularly those that involve TRANSCO. TRANSCO likewise attends relevant regulatory hearings pertaining to other applications of NGCP. In some instances, TRANSCO filed for intervention.

**D. Environmental Compliance of NGCP.** The TRANSCO Asset Inspection Team likewise looked into the environmental compliance of NGCP in all its 20 districts in Luzon, Visayas and Mindanao. The Team reviewed the availability of relevant permits and ensured that copies of the same are maintained in the TRANSCO Data Room.

**E. Implementation of Executive Order No. 701.** Former President Gloria Arroyo's Executive Order No. 701, dated January 22, 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 by TRANSCO starting March 2008 and jointly implemented with National Power Corporation. Discounts were reimbursed through the Industry Competitiveness Fund (ICF) created under Executive Order No. 796. However, as of late, the available

funds from the ICF have been exhausted and there is no clear direction yet as to the grant of discount.

With respect to the other mandate of EO No. 701, the acquisition of Hanjin assets has been duly accomplished with the execution of a Deed of Sale between Hanjin and TRANSCO sometime in November 2011, following the issuance of the ERC Decision in ERC Case No. 2011-019 reclassifying Hanjin power lines as transmission assets. As it is, the acquisition of TRANSCO of the latter's assets was limited to the transmission assets as classified by the ERC. The rest of the assets that remained as connection assets were not acquired by TRANSCO.

To date, TRANSCO, Hanjin and NGCP are negotiating on the terms and agreements of the turnover of said Hanjin transmission assets for the operation and maintenance of the same by NGCP.

**F. Management of Data Room.** TRANSCO continues to maintain relevant records regarding the Concession/Concessionaire through its Data Room. The Data Room serves as the repository of all relevant records pertaining to the actions of the Concessionaire in fulfilling its obligations under the Concession Agreement and RA 9511 as well as to results of operations. TRANSCO designed an in-house data management system that is now being used and implemented for the Data Room.

**G.ERC Caravan on Retail Competition and Open Access Activities (RCOA).** Starting July 2011, TRANSCO has participated and joined the ERC Caravan on Competitive Retail Electricity Market (CREM), also known as Retail Competition and Open Access (RCOA), which gives all electricity end-users in Luzon and Visayas with an average monthly peak demand of one (1) MW and above for the 12 months preceding 26 December 2011 the right to choose their own electricity suppliers.

The Department of Energy (DOE), through its Circular No. 2011-06-0006, created a Steering Committee composed of three (3) technical working groups (TWG) to evaluate the readiness, preparations, and identification of issues that need to be addressed prior to the implementation of the RCOA. One of the working groups created is the TWG-Technical Assessment, which is headed by the TRANSCO President and composed of members from several agencies. Among others, the group is tasked to evaluate the preparations for implementation and sufficiency of ERC rules and guidelines with respect to the technical aspect of the same. CCMG acts as the secretariat for the said TWG.

**H.Preparation of 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 complied with 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 3344 and 4543), proposed revision of EPIRA and other data inquiry that were required by other agencies.

**I. Transmission Development Plan Consultations.** The Concession Agreement states that NGCP shall be responsible for the preparation of the Transmission Development Plan (TDP) and shall consult TRANSCO in its preparation. In this light, TRANSCO provided technical inputs/comments in the preparation of the Transmission Development Plan (TDP) to ensure that the pipeline projects support the national government and attached agencies' plans and programs. TRANSCO and NGCP conducted a series of meetings in preparation for the presentation and finalization of the TDP, with inputs from the Power Development Plan of DOE, and the grid requirements of local government units, business groups and other power stakeholders. In line with this, TRANSCO also monitored NGCP's implementation of projects listed in the TDP.

**J. Ensuring Adequate Insurance Coverage Over TRANSCO's Assets.** The insurance coverage for transmission assets is arranged jointly by TRANSCO and NGCP with the GSIS. While payment for insurance premiums is the responsibility of the Concessionaire, TRANSCO is co-assured as the asset owner. The Industrial All Risk Policy secured by NGCP with the GSIS thru a public bidding conducted last June 2011 started from June 30, 2011 to June 30, 2012.

**K. Joint Inspection with PSALM of NGCP Books and Records.** TRANSCO, jointly with PSALM, created a team for the purpose of inspecting NGCP books and records in its office and in another secure location as stated in the Concession Agreement.

The inspection was held in October 2011 at a temporary data room set up by the NGCP in its Systems Operation Building. Notably, NGCP has yet to establish its own record/filing system as well as establish a second secured location of its data room. Nonetheless, the inspection proved to be useful as TRANSCO and PSALM representatives were able to check on the existing documents/records of NGCP

### **III. DIVESTMENT OF SUB-TRANSMISSION ASSETS**

TRANSCO's sub-transmission assets include some 6,200 ckt-km of mostly 69 kV transmission lines and 1,600 MVA of substation capacity. In compliance with the mandate of EPIRA and under the guidelines set by the Energy Regulatory Commission, TRANSCO signed 18 sale contracts with electric cooperatives (ECs) and distribution utilities (DUs) in 2011.

As of December 31, 2011, TRANSCO has signed 101 sale contracts with 75 distribution utilities/electric cooperatives/consortia. These sales cover an aggregate length of about 3,600 ckt-kms of sub-transmission lines and about 33,000 sub-transmission structures and 850 MVA of substation capacity. Of the 101 sale contracts, 43 contracts have been approved by the ERC as of Dec. 2011 as posted in the ERC website. The rest of the sale contracts are for ERC filing, evaluation or approval.

Following the EPIRA provision to extend concessional financing to electric cooperatives, TRANSCO implemented lease purchase arrangements with a term of 20

years. Of the 101 sale contracts already signed, 61 are under lease purchase agreements with 54 electric cooperatives/consortia. The remaining 40 involved sales to private distribution utilities/consortia.

TRANSCO is looking forward to the sale of about 1,300 ckt-km of sub-transmission lines and about 500 MVA of substation equipment among 44 interested distribution utilities/consortia in the next four years.

<p style="text-align: center;"><b>Legal, Right-of-Way and Land Management Services Group (LRLMSG)</b></p>
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Despite the turnover of its transmission business to NGCP on January 15, 2009, TRANSCO remains as owner of all transmission assets. Further, pursuant to Section 5.08 (b) of the Concession Agreement, TRANSCO retained the handling of (a) obligations in relation to loans existing prior to Commencement Date contracted by NPC relating to the Transmission Assets and (b) claims relating to existing ROW whereby the cause of action accrued prior to Commencement Date, provided however, that should the Concessionaire through any act or omission cause any liability or claim to arise or be aggravated, it shall be liable for the incremental liability resulting from such act or omission.

**I. PROFILING OF EXISTING TRANSMISSION ASSETS (EXCLUDING PUCs & NEW PROJECTS)**

TRANSCO completed in 2011 the profiling of all existing transmission and sub-transmission lines nationwide. Profiling entailed the following activities:

- A) Verification of the actual length of transmission and sub-transmission lines, ROW width, total area affected by the transmission and sub-transmission lines, the construction and commissioning dates thereof;
- B) Verification of traversed areas (by Municipalities/Cities/Provinces);
- C) Determination of valuation of affected properties based on current BIR zonal values

**II. RIGHT-OF-WAY CLAIMS**

ROW claims were validated/verified in 2011. The process includes the validation of ownership over the claimed properties, survey of properties (if needed), and the determination of appropriate compensation as provided by law.

**III. EXPROPRIATION CASES**

Expropriation cases were validated, prepared, and filed in court by TRANSCO in relation to ROW issues.

**IV. SECURED ERC APPROVAL OF TRANSCO EXPENDITURES FOR RECOVERY IN THE 3<sup>RD</sup> REGULATORY PERIOD**



## Corporate Services Group (CSG)

### **I. FINANCE**

- A. Finalization of Audit for Initial Working Capital (IWC).** Consistent with Section 4.06 of the Concession Agreement, the audit for IWC which lasted for two years, was finalized on June 2011. The impact of the audited IWC would be an upward adjustment of the concession fee. Said amount shall be one of the bases in the determination of adjustment to the concession fee.
- B. Reconciliation with NGCP of Escrow Fund Utilization of Projects Under Construction (PUCs).** This activity together with the finalization of IWC audit, paved the way for the initial talks on the concession fee adjustment where a net PUC adjustment of P10,106.50 Bn was confirmed.
- C. Inspection of NGCP Books and Records.** Finance participated in this corporate undertaking by monitoring NGCP's compliance with its obligations/requirements pursuant to Section 10.01 and 10.03 of the Concession Agreement and other Transaction Documents. *(Finance was part of the team headed by CCMG).*
- D. Maintenance of Fixed Assets Register and Inspection of Transmission Assets.** Finance continuously maintains records of all transmission assets being utilized by NGCP and updates the same for any movements such as additions/unitization, retirement, major repairs/replacement, transfers, damages, disposal and losses. Likewise, to ascertain the existence and general physical condition of the transmission assets, Finance participated in the conduct of inspection/inventory of said assets with NGCP and TRANSCO-CCMG.
- E. Review of Contracts Relative to the Divestment of Sub-Transmission Assets.** Finance coordinated with the Sub-transmission Divestment Department in its task of divesting the said assets thru the review of sale contracts with the distribution utilities/cooperatives, particularly on the indicative depreciated values of the assets for divestment.
- F. Development of the Financial Planning System Module and Maintenance of Corporate Database and Enhancement of Existing Accounting System.** The new financial planning module was developed to address the preparation and submission of financial projections, simulations, sensitivity analysis and impact studies. The maintenance of database and enhancements in the accounting systems facilitated access to information/data needed in the analysis/review/validation of financial transactions and preparation of the Corporation's financial statements and financial reports/schedules.
- G. Preparation of Financial Statements and Reports/Schedules for CY 2010 and 1<sup>st</sup>/2<sup>nd</sup>/3<sup>rd</sup> Quarters of 2011.** Finance undertakes the preparation and

submission of report requirements of COA, DOF, DBM, DOE, PSALM, BIR, Senate, Congress, Bangko Sentral ng Pilipinas, and other government monitoring agencies and external units/groups.

- H. Preparation and Submission of CY 2012 Corporate Budget.** This activity includes review of cost center proposals, securing ManCom, BTeC, and TRANSCO Board approval, submission to DBM and Congress, and participation in House of Representatives and Senate hearings.
- I. Sensitivity Analysis and Submission of Various Requirements.** Finance provided support services in matters requiring sensitivity analysis and submission of requirements to government agencies, which include Millennium Development Goals for submission to NEDA/DBM/House of Representatives and the Public Investment Program.

## **II. ADMINISTRATION**

- A. Institution Building.** TRANSCO started implementation of its Corporate Effectiveness and Enhancement Program (CEEP) to assess its effectiveness in carrying out its new mandates. Following a process that involved top management and all employees, new Corporate Mission and Vision Statements were developed and are now in the final phases of approval and adoption.
- B. Implementation of Wellness and Mortuary Aid Programs.** New Wellness Program activities were undertaken to help improve the health and well-being of employees. These include influenza vaccinations and a more comprehensive health screening. Management also implemented the Mortuary Aid program to provide financial assistance (thru salary deduction) in case of employee's death or those of his/her immediate family members.
- C. Development of IT Application Systems.** TRANSCO developed in 2011 a Document Management System to facilitate the handling of electronic copies of concession records and a web-based Asset Inspection and Monitoring System (AIMS) that will enable management to view data and trends captured during the inspection of transmission assets in real time through the internet. Another is the web-based Power Outlook Monitoring System that will show critical information derived from NGCP's Daily Operation Reports and Daily Operation Highlights.

### **UTILITY MANAGEMENT DEPARTMENT (UMD)**

**Management and Operation of Power Systems at PEZA.** TRANSCO operated and maintained the electrical distribution systems of the four Economic Zones in Bataan, Cavite, Mactan (up to May 2011) and Baguio of the Philippine Economic Zone Authority in 2011. 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.