NATIONAL ADMINISTRATIVE REGISTER · JULY 19, 2010

A RESOLUTION ADOPTING THE VALUATION HANDBOOK FOR THE OPTIMIZED DEPRECIATED REPLACEMENT COST VALUATION OF SYSTEM FIXED ASSETS OF PRIVATELY OWNED DISTRIBUTION UTILITIES OPERATING ...

ERC RESOLUTION NO. 17, S. 2010, July 19, 2010

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WHEREAS, on December 10, 2004, the Commission promulgated Resolution No. 12-02, Series of 2004, entitled "A Resolution Adopting a Methodology for Setting Distribution Wheeling Rates", also known as the Distribution Wheeling Rates Guidelines (DWRG), which was later renamed as the "Rules for Setting Distribution Wheeling Rates for Privately-Owned Distribution Utilities (RDWR)";

WHEREAS, Clause 4.8.2 of the RDWR requires that prior to the commencement of the Third Regulatory Period, an asset re-valuation must be undertaken in relation to each Regulated Distribution System. A Distribution Utility's (DU) asset valuation is to be undertaken by either:

> a) An independent appraisal company engaged by the DU, in which case the Commission must also retain a Regulatory Reset Expert or Experts to review the valuation results and the Valuation Report; or
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> b) A Regulatory Reset Expert or Experts retained by the Commission, pursuant to Article XIV of the RDWR for purposes of undertaking the valuation (and preparing the Valuation Report).
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> Regardless of which of the above options applies to an entry group, the ODRC asset valuation shall be undertaken in accordance with the requirements of the Valuation Handbook.

WHEREAS, for the Second Regulatory Period, the Commission conducted the asset valuation through its appointed valuation experts, however, for the Third Regulatory Period, the asset re-valuation shall be undertaken by each Regulated Entity. The Commission shall review the valuations provided by the DU and may make adjustments to the valuation when the supporting information provided by the DU to substantiate the valuation is insufficient;

WHEREAS, Clause 3.2.2 of the Position Paper provides that each "Regulated Entity will conduct the valuation of its Regulatory Asset Base (RAB) in accordance with the Valuation Handbook, with the results forming part of its Revenue Application";

WHEREAS, on May 18, 2010, the Commission posted at its website the second draft of the Valuation Handbook, and on various dates, it conducted expository public consultations on the draft Valuation Handbook and discussed the comments submitted by the industry stakeholders;

WHEREAS, on July 7, 2010, the Commission posted at its website the second draft of the Valuation Handbook for submission of comments by the industry stakeholders not later than July 12, 2010. Aboitiz and the Manila Electric Company (MERALCO) submitted their respective comments thereto;

WHEREAS, the Valuation Handbook describes the Commission's requirements for the valuation of the RAB using the Optimized Depreciated Replacement Cost (ODRC) Methodology. Said Valuation Handbook supersedes

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the Asset Valuation Policy Guidelines for Privately Owned Distribution Utilities Subject to Performance Based Regulation Final Determination dated August 9, 2006, and the Guidelines for Preparing Asset Schedules for Performance Based Regulatory Initial Asset Valuations dated March 2, 2009. The impact of the Valuation Handbook will apply to the Third Regulatory Board and will take effect on July 1, 2011;

NOW, THEREFORE, the Commission, after thorough and due deliberation, RESOLVED, as it is hereby RESOLVES to ADOPT the "Valuation Handbook for the Optimized Depreciated Replacement Cost Valuation of System Fixed Assets of Privately Owned Distribution Utilities Operating Under Performance Based Regulation," copy of which is hereto attached as "Annex A"[*].

This Resolution shall take effect fifteen (15) days following its publication in a newspaper of general circulation in the Philippines.

Let copies of this Resolution be furnished the University of the Philippines Law Center-Office of the National Administrative Register (UPLC-ONAR) and all Privately Owned Distribution Utilities Operating under the Performance Based Regulation.

(SGD.) ZENAIDA G. CRUZ-DUCUT
Chairperson

(SGD.) RAUF A. TAN
Commissioner

(SGD.)ALEJANDRO Z. BARIN
Commissioner

(SGD.) MARIA TERESA A.R. CASTAÑEDA
Commissioner

(SGD.) JOSE C. REYES
Commissioner

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[*]Text Available at Office of the National Administrative Register, U.P. Law Complex, Diliman, Quezon City.

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