

GUIDELINES FOR THE APPRAISAL OF PROPERTY, PLANT AND EQUIPMENT FOR RATE FIXING PURPOSES OF ERC

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PART I. GENERAL PROVISIONS

1. Purpose

In reference to Section 43, paragraph (f) (i) of R.A. 9136 or the Electric Power Industry Reform Act of 2001, this guidelines are hereby issued for purposes of setting the minimum standards and procedures to be followed by Appraisers in generating an appraisal report that is acceptable to the Commission for rate making purposes.

2. Definition of Terms

2.1 Appraisal - the process of determining the current values of fixed assets in accordance with the standards prescribed by the Commission and valuation methodologies acceptable to the Commission. Also referred to as Appraisal Process.

2.2 Appraisal Report - the end product of the appraisal process submitted to the Commission for rate making purposes, including the detailed listing of the assets being valued, their valuation, and additional information required by these guidelines.

2.3 Appraiser(s) - A duly accredited company or individual who performs the appraisal process for purposes of preparing an appraisal report for submission to the Commission for rate making purposes.

2.4 Client - Any person or entity, whether organized for profit or not, who retains an appraiser. Also referred to as Enterprise.

2.5 Commission - the Energy Regulatory Commission.

2.6 Electric Power Industry Participant (EPIP) - refers to any Person or entity engaged in the generation, transmission, distribution or Supply of Electricity.

2.7 Property, Plant and Equipment (PPE) - These are tangible assets of an EPIP either being used in the operation of the business, held as an investment, or idle and have useful lives of more than one (1) year. Also known as Fixed Assets.

PART II. ACCREDITATION OF APPRAISERS

The Commission will accredit appraisers who have previously been accredited by the Securities and Exchange Commission (SEC), provided:

1. The appraiser must submit a copy to ERC of all documents previously submitted to SEC in their request for accreditation, such as but not limited to:

- Notarized application for accreditation;

- Company profile indicating the history, scope of services of the appraiser company, and the bio-data of

executive/certifying officers;

- Copy of license issued by the Department of Trade and Industry (DTI);
- Certificate of good standing issued by any registered association of appraisal companies;
- List of past and present clientele;
- Certifications from at least one (1) commercial bank and two (2) public companies that they have engaged the services of the appraisal company;
- Notarized certification of the appraisal company signed by its President that the company meets all the qualification requirements under Sec. 2; that it has not been declared liable by the Commission or by any competent court for violation of the Corporation Code or the Securities Regulation Code; and that the company or any of its directors/executive officers has no adverse judgment on any administrative, civil or criminal case involving its appraisal business;
- Latest audited financial statements; and
- Copy of the Certificate of Accreditation issued by the SEC.

2. The appraiser must manifest in writing that permission is granted to the Commission to review the working papers that support their appraisal report.

Foreign appraisers not registered to do business in the Philippines can perform appraisal only if they work in collaboration with a duly accredited appraiser.

The accreditation of an appraiser shall expire or it shall be automatically delisted after a period of three (3) years unless renewed before said date.

The accreditation may be revoked for cause as determined by the Commission.

The application fee for initial or renewal accreditation shall be Five Thousand (P5,000.00) Pesos.

PART III. APPRAISAL STANDARDS

The following standards set forth the benchmark for the performance of the appraisal process and should be observed by the appraisers while performing their work:

1. General Standards

1.1 The appraisal shall be performed by an appraiser having adequate technical training and proficiency in the appraisal process.

1.2

The appraisal shall be performed by an appraiser having adequate knowledge of the asset being valued.

1.3

In all matters relating to the appraisal, an independence in mental attitude shall be maintained by the appraiser.

1.4

Due professional care shall be exercised in the performance of the appraisal.

2. Standards of Fieldwork

2.1 The work shall be adequately planned and assistants, if any, shall be properly supervised.

2.2

Sufficient evidence shall be obtained to provide a reasonable basis for the valuation indicated in the appraisal report.

3. Standards of Reporting

3.1 The appraisal report should state the purpose of the appraisal.

3.2

The report should state whether the appraisal was done in accordance with the standards required by the Commission and that the appraiser(s) is independent.

3.3

The report should contain at least the minimum information required by the Commission or as explained in Part VI of this guidelines.

3.4

The report shall state all of the appraiser's significant reservations about the appraisal.

3.5

The appraisal report should include qualifications of the appraiser's staff who prepared the appraisal report. Where the assets being appraised are highly technical in nature, the technical qualifications of the appraisers must show his ability and capacity for the appraisal.

PART IV. INDEPENDENCE

Independence may be affected by the financial interests and business relationships of the appraiser, stockholders (owners), and officers and staff who participate in the particular appraisal process.

During the period of the appraisal process up to the time the appraisal report is submitted to the Commission, the appraiser, its stockholders, and officers and staff who participate in the particular appraisal process:

- should not own any stock in the enterprise whose fixed assets are being appraised for rate making purposes; and
- should not be associated with the enterprise as a promoter, underwriter or voting trustee, a director or officer, employer, agent, broker, consultant, executor, administrator, or any capacity equivalent to that of a member of management or an employee.

The independence of the appraiser, its stockholders, and officers and staff may be impaired by the financial interests and business relationships of their spouse, dependent children, or any relative living in a common household with, or supported by them. The financial interests or business relationships of such family, dependents, or relatives are ascribed to the appraiser, its stockholders, and officers and staff concerned.

PART V. ACCEPTABLE APPRAISAL METHODOLOGIES FOR SPECIFIC UTILITY ASSETS

It is the obligation of appraisers to observe the revaluation policies set forth under Sections 4.6.6 to 4.6.12 of the Transmission Wheeling Rate Guidelines, the Electric Power Industry Reform Act of 2001, and other Commission

guidelines that may be issued from time to time which are relevant to the appraisal process.

The appraisers must use generally acceptable valuation methodologies. When challenged by the Commission, the appraiser must demonstrate that the valuation method used is appropriate under the circumstances.

PART VI. MINIMUM CONTENTS OF APPRAISERS' REPORT

The appraisal report should specifically contain the following minimum information:

- The purpose for which the appraisal report was prepared and submitted - e.g. for rate making purposes.
- That the standards provided by the Commission were observed.
- That the valuation methodologies are appropriate in the circumstances.
- That the appraiser is independent.

With respect to each item listed in the body of the appraisal report:

- Whether each item listed is used or not used in the electric business. If partially used and if possible, indicate the percentage of the asset being utilized.
- How the existence of the assets was determined - e.g. by ocular inspection or some other method. (Explain this other method)
- For each asset with a sound value of P500,000, the related cost and the voucher reference in the enterprise's book of accounts.
- The original and the remaining life of the asset.

A suggested format for the presentation of the required information for the detailed listing of appraised assets is shown below.

Category of the Asset

Estimated Life Utilized Existence

Asset/ Description

Reproduction Cost - New Sound Value cost Related Historical Reference Original Remaining

Yes/ No

Partially

(%Use)

Ocular Inspection

(If No, describe other method)

Land

Land

-- P15M P10M CV#199 -- --- Yes Yes

XXX XXX XXX XXX XXX XXX XXX Yes Yes

PART VII. AMENDMENT

This Guidelines may only be amended by the ERC.

PART VIII. SEPARABILITY

If, for any reason, any provision of this Guidelines or part thereof is declared unconstitutional or invalid, those provisions which are not thereby affected will continue to be in full force and effect.

PART IX. EFFECTIVITY

Subject to the provisions of any other applicable law, rules and regulations this Guidelines shall take effect fifteen (15) days after its publication in two (2) newspapers of general circulation.

Adopted: 17 March 2004

(SGD.) RODOLFO B. ALBANO, JR.

Chairman

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(SGD.) CARLOS R. ALINDADA

Commissioner

Commissioner

(SGD.) LETICIA V. IBAY

(SGD.) JESUS N. ALCORDO

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