

[ ERC, March 17, 2004 ]

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

**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:
  - a. Notarized application for accreditation;
  - b. Company profile indicating the history, scope of services of the appraiser company, and the bio-data of executive/certifying officers;
  - c. Copy of license issued by the Department of Trade and Industry (DTI);
  - d. Certificate of good standing issued by any registered association of appraisal companies;
  - e. List of past and present clientele;
  - f. Certifications from at least one (1) commercial bank and two (2) public companies that they have engaged the services of the appraisal company;

- g. 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;
- h. Latest audited financial statements; and
- i. 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.