



Republic of the Philippines
Energy Regulatory Commission
Pacific Center, San Miguel Avenue, Pasig City

EXPRESSIONS OF INTEREST

for the

**APPOINTMENT OF A REGULATORY RESET EXPERT
FOR THE REVIEW OF THE EXPENDITURE FORECASTS OF
PRIVATELY OWNED ELECTRICITY DISTRIBUTION UTILITIES
IN THE PHILIPPINES THAT ARE SUBJECT TO
PERFORMANCE-BASED REGULATION**

MAY 23, 2006

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1. INTRODUCTION

The Philippines Energy Regulatory Commission (ERC) invites expressions of interest from suitably qualified and experienced regulatory reset experts to assist it in its review of expenditure forecasts submitted by privately owned electricity distribution utilities that are subject to performance based regulation.

An overview of the assistance required by the ERC and the context within which it is required is provided below.

This invitation will be sent directly to selected parties, as well as published on the ERC website and in a Manila daily newspaper.

1.1 Background and scope of work required

The ERC is the independent regulatory body for the Philippines electric power industry. It has recently promulgated a performance-based form of regulation (PBR) for privately owned electricity distribution utilities in the Philippines, in terms of which participating utilities will be subject to a price-cap for the delivery of distribution wheeling services. The reset process for the setting of the price cap that will apply from July 1, 2007 to June 30, 2011 (the Second Regulatory Period) is currently underway.

An important requirement of the reset process going forward is the review of the expenditure forecasts submitted by distribution utilities as part of the rate-setting process under PBR. These expenditure components are critical to the determination of the revenue to which distribution utilities are entitled on which the price-caps will be based.

The ERC requires assistance in its review of the expenditure forecasts for the period July 1, 2007 to June 30, 2011. The forecasts will be for the following expenditure categories:

- a) capital expenditure;
- b) disposal of fixed assets¹;
- c) operating and maintenance expenditure; and
- d) taxes (other than corporate income tax), levies and duties expenditure.

Three Distribution Utilities have to date opted to take part in the PBR, and the expenditure forecasts for each of these will be reviewed:

- Cagayan Electric Power & Light Company, Inc, (Cepalco)
- Dagupan Electric Corporation (Decorp)
- Manila Electric Company (Meralco)

The key outputs from the assignment will be as follows :

¹ While not strictly an expenditure category, the disposal of fixed assets is closely linked with utilities' capital development programs and the ERC requires a review of the forecast extent of disposals for each regulatory year as well as the forecast income that would be derived from the sale of disposed assets.

- a) analyses of the expenditure forecasts for each Distribution Utility;
- b) assessment of the reasonableness of these expenditure forecasts and recommendations about how they should be modified, if required;
- c) preparation and presentation to the ERC of a detailed report in which the expert's findings are presented;
- d) assistance in explaining and defending the approved expenditure forecasts during the public hearing process that will follow rate applications by distribution utilities under the Regulatory Reset Process and the publication of the ERC's draft determination in this regard;
- e) documentation of all the functions performed in evaluating the data provided and of the reasons for coming up with the recommendations, including full details of the changes recommended to the utility expenditure programs;
- f) use and further development of the spreadsheet-based model developed by the ERC to collect expenditure information and analyze the impact on the total expenditure that will arise from modifications to the forecast expenditure programs and to capture all information related to such modifications; and
- g) conveying knowledge and skills in the reviewing of utility expenditure forecasts to ERC staff.

In terms of the reset process, the ERC has to make its draft determination on the price-caps for distribution wheeling rates February 16, 2007 and the final determination by May 31, 2007. To achieve this, the following program will be implemented for the expenditure review process:

ACTIVITY	REQUIRED DATE
Submission of expressions of interest	June 2, 2006
Submission of proposals	June 30, 2006
Notification of successful party	July 21, 2006
Project start date	July 28, 2006
Kick-off meeting	August 14, 2006
Presentation of project work-plan and expenditure review guidelines to the ERC	August 14, 2006
Training session for ERC staff	August 15, 2006
Review forecasts in preliminary rate applications	August 25, 2006
Final rate applications received from utilities	August 31, 2006
Draft expenditure review report provided to ERC	December 1, 2006
Final expenditure review report presented to ERC	December 18, 2006
Draft determination published by ERC	Feb 16, 2007
Final determination published by the ERC	May 31, 2007

2. REQUIREMENTS FOR THE EXPRESSIONS OF INTEREST

The procedure for the submission and evaluation of the expressions of interest is described below, as well as the information required by the ERC.

2.1 Submission of expressions of interest

Expressions of interest are to be submitted to the ERC by close of business (local time) on Friday, June 2, 2006. Submissions can be made by email, fax, post or hand-delivery. The documents should be in MS-Word or Adobe PDF format.

Proposals should be delivered to :

Commissioner Rauf A. Tan
Energy Regulatory Commission
16th Floor, Pacific Centre Building
San Miguel Ave, Ortigas Centre
Pasig City, Metro Manila, Philippines
Email : rauf@erc.gov.ph
Phone : +63-2-6315997

Prior to the submission date, enquiries about the expression of interest or the work involved can be directed to:

Dennis R. Siaton
Email : tariffsrates@erc.gov.ph
(Attention Dennis Siaton)
Phone : +63-2-6348641 or +63-2-9145000 loc. 118

2.2 Information required

The information described below is required in the expressions of interest.

Note that the ERC is not interested in lengthy descriptions of company history and structures, marketing material, extensive company profiles and curriculum vitae or experience sheets that are dated or not directly relevant to this assignment.

2.2.1 Contact details

Full details of the expert or company submitting the proposal is required, including:

- contact details (telephone and fax numbers, as well as email address) of the expert submitting the proposal and the person who can be contacted in this regard;
- business address for the expert or, in the case of a company, the office from which the expression of interest is submitted; and
- the format and legal status of the party submitting the expression of interest.

2.2.2 Details of team proposed

Given the range and volume of work involved in reviewing the expenditure forecasts for the three distribution utilities and the relatively tight timeframe for completion, it is foreseen that the expert will provide a team of specialists. The composition of this team should be adequate to ensure that all the prerequisite skills are present to provide all the outputs required from the project within the timeframe allowed.

Details of the team that will be offered to work on this project must be included, including a description of their proposed roles, their qualifications and their background. Summary Curriculum Vitae should be provided, specifically highlighting experience relevant to the review of expenditure forecasts in a regulatory environment.

2.2.3 Demonstration of relevant experience

The relevant project expertise and experience of the team offered should be demonstrated. This is to include a succinct description of projects successfully completed in the past for energy regulators in a performance-based regulatory environment, with particular emphasis on reviewing expenditure forecasts. The clients for who the projects were completed should be indicated, as well as the project completion dates.

A good understanding of the environment and experience in working in the Philippines or similar developing countries must also be demonstrated.

Where relevant, a brief overview of the company background and experience can also be included.

2.2.4 Confirmation of commitment to timelines

The timeline for the regulatory reset process is in accordance with the Electric Power Industry Reform Act, no 9136 (EPIRA) and has been set after substantial consultation processes. It is therefore essential that the work will meet the required deadlines as described above.

Confirmation is sought in the expressions of interest that the expert will be able to deliver the required outputs to the proposed program.

2.2.5 Conflicts of interest

Experts are to confirm that there are no existing or potential conflicts of interest that will arise out of their appointment for this assignment.

2.3 Other details

2.3.1 Contract language

The language for the project will be English and all documentation, workshops, meetings and correspondence will be in English. That also applies to the expressions of interest.

2.3.2 Governing law

The governing law for the project will be that of the Republic of the Philippines.

2.3.3 Technical expertise

In terms of the rules guiding the performance based regulation in the Philippines, the following minimum technical requirements must be met by the Expert:

Distribution system design, construction, maintenance and operation, load flow modelling and distribution network benchmark service performance

Have experience in:

- a) Electricity network load flow modelling;*
- b) Design, construction and maintenance of electricity distribution networks, including project cost estimation, project planning, cost control and network constraint elimination;*
- c) Measuring and monitoring electricity network performance;*
- d) Design and/or augmentation of electricity networks for reduced line losses; and*
- e) Electricity network performance monitoring and benchmarking against overseas distribution entities.*

Have:

- f) Qualifications in Engineering; or*
- g) Other qualifications relevant to the matters referred to above.*

Professional qualifications

Where a person is required to have qualifications in Accounting, that person must be registered as a certified public accountant under the Revised Accountancy Law (Presidential Decree No.692) who possesses the independence as defined in Part II Section 14 of the Code of Professional Ethics for Certified Public Accountants as promulgated by the Board of Accountancy and approved by the Professional Regulation Commission.

Where a person is required to have qualifications in Engineering, Economics or Business or Commerce, or as an Actuary, that person must have:

- a) have graduate or post graduate qualifications in that discipline from a reputable Philippines or overseas university, with demonstrable experience of having worked in that field for three years or longer; or*
- b) be a member of a professional institute in the Philippines or an overseas jurisdiction which represents that discipline, with a grading according to the rules of that institute that is higher than entry or training level.*

Notwithstanding the above, the ERC may decide to appoint a Regulatory Reset Expert who does not comply with these requirements for professional qualifications, where it has been proven to the satisfaction of the ERC that the Reset Expert has more than 10 years demonstrable professional experience in the relevant discipline that is directly relevant to the service to be rendered.

2.3.4 Contract payments

All payments for work completed will be made in US dollar, unless an expert specifically requests this to be done in Philippine Peso. In terms of the rules for performance based regulation, contract payments will be made directly to the expert by the three distribution utilities concerned (represented by a single utility).

2.4 Evaluation of the expressions of interest

The ERC intends to draw up a short-list of eight (8) successful candidates from the expressions of interest. These candidates will be asked to submit a formal proposal to assist the ERC with the reviews. The final award of the assignment will be made on the grounds of these proposals.

In evaluating the expressions of interest, the ERC will consider the following factors :

- a) Composition and expertise of the team (weighting 30%)
- b) Demonstrated relevant experience of the team (weighting 30%)
- c) Demonstrated experience in operating in the Philippines or similar environments (weighting 30%)
- d) Company reputation and ability to provide back-up if required² (weighting 10%)

Expressions of interest will be rejected out of hand for the following reasons :

- inability of experts to commit to the timeframe required;
- incomplete or insufficient information provided;
- expressions of interest submitted after the closing date; or
- substantial conflicts of interest that could arise from the appointment.

The ERC may decide to contact clients listed in the experience schedules for a reference check. If the expert does not want a particular client to be contacted, this should be clearly indicated and justified.

² The ERC intends to assess company reputation at the hand of its own experience of working with these companies, or of that of distribution utilities in the Philippines. It may also contact clients noted in the descriptions of past projects.

2.5 Closure of the process

After evaluation of the expressions of interest, the ERC will advise the short-listed parties and provide them with a formal request for proposals. This will be done by email. It is intended to provide the advice by not later than June 9, 2006.

Unsuccessful parties will be notified by email or fax. The ERC will provide only an outline indication of why the expert was not short-listed for the project. No further correspondence with regard to the drawing up of the short-list will be provided.