

REPUBLIC OF THE PHILIPPINES )  
MAKATI CITY )

### A F F I D A V I T

I, **ALLAN P. PALMA**, of legal age, married and with business address at **21<sup>st</sup> Floor, 6788 Ayala Avenue, Oledan Square, Makati City**, after having been duly sworn to in accordance with law, hereby depose and state THAT:

1. I obtained the degree of Bachelor of Science Mechanical Engineering at Cebu Institute of Technology in 1989 and passed the government examinations for Mechanical Engineering in 1989, Licensed Real Estate Appraiser in 1998 and Real Estate Broker in 2001. I am affiliated with the Philippine Society of Mechanical Engineers and Philippine Association of Realty Appraisers;
2. I am presently the Senior Valuation Manager of Asian Appraisal Company, Inc. (AACI). I started employment with AACI in 1990 as Assistant Appraiser rose to the rank of Staff Appraiser, Senior Appraiser, Valuation Manager and eventually to this present position;
3. In the course of my employment at AACI, I performed the valuations of public utilities namely, National Power Corporation, Manila Electric Company (MERALCO), Philippine Long Distance Telephone Corporation, Globe Telecom, Panay Electric Corporation, Cabanatuan Electric Corporation, Dagupan Electric Corporation, Cagayan Electric Corporation, Cotabato Light and Power Company, Davao Light and Power Company, and National Electrification Administration for the Electric Cooperatives;
4. AACI has been engaged in property appraisal for 45 years and with head office at Ayala Avenue, Makati City and branches at Cebu, Bacolod and Davao. It is the largest professional valuation firm in Southeast Asia and has undertaken foreign projects for the power sector in the USA, Brazil, China and Singapore;
5. On January 18, 2006, PBA partnered with Asian Appraisal Company, Inc. (AACI) for the purpose of valuing distribution company assets in the Philippines. AACI has been rendering appraisal services for Philippine distribution companies since 1970;
6. On December 19, 2005, the Energy Regulatory Commission (ERC) published an invitation to respond to a Request for Proposal (RFP) for the appointment of a regulatory reset expert for the valuation of the regulatory base of the privately owned distribution utilities (DUs) operating under Performance Based Regulation (PBR);
7. On February 9, 2006, the ERC engaged the services of PBA/AACI to conduct an appraisal of the Transmission, Distribution and General Plant of Cagayan Electric Power and Light Company, Inc. (CEPALCO), Dagupan Electric Corporation (DECORP) and Manila Electric Company (MERALCO) at various locations in Luzon and Mindanao exclusive of materials on hand, any current and intangible assets existing as of June 30, 2006, for the purposes of arriving at the Fair Market Value of the land and transportation equipment and the ODRC of the other replaceable assets of these DUs;

8. The bases of values adopted are as follows:

a. For land and Transportation Equipment – Fair Market Value (FMV)

**Fair Market Value** defined as the amount in terms of money which a property bring in a competitive and open marked under all conditions requisite to a fair sale, the buyer and the seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

b. For Replaceable Assets – Optimized Depreciated Replacement Cost (ODRC)

ODRC is defined as the minimum cost of replacing or replicating the service potential embodied in the network with modern equivalent assets in the most efficient way possible from an engineering perspective, given the service requirements, the age and condition of the existing assets and replacement in the normal course of business.

9. The valuations were conducted in accordance with the Asset Valuation Guidelines promulgated by the ERC on August 9, 2006;

10. In going about the valuations, PBA and AACI agreed on the following delineation of duties:

System Fixed Asset Valuation	PBA with support of AACI for ocular inspections
Land and Building valuation	AACI
Non-System Fixed Assets Valuation	AACI
System Fixed Assets Replacement Costs	PBA
Asset Lives	PBA
Optimization	PBA
ODRC Register	PBA for System Fixed Assets; AACI for Non-System Fixed Assets, Land and Building
Reconciliation of June 30, 2006 valuation to previous valuation	PBA for System Fixed Assets; AACI for Non-System Fixed Assets, Land and Building

11. As a result of valuation conducted, PBA / AACI prepared formal valuation reports for CEPALCO and DECORP, hereto attached as Annex B and C;

12. Said valuation reports include the following:

- a. Executive Summary (Section 1.1 of the valuation report);
- b. Details of the approach taken for the valuation (Section 1.2 of the valuation report);
- c. Description of the sources of information relied upon in the valuation (Section 2 of the valuation report);
- d. Assumptions and limiting conditions which impact upon the valuation (Section 3 of the valuation report);
- e. Schedule of standard replacement cost and economic asset lives for fixed assets (Appendix B of the valuation report);
- f. Provision of detailed supporting asset schedules for all the DUs Fixed Assets (ODRC spreadsheet(s) for each DU);

- g. Details of the amount of depreciation charge, and the depreciated replacement cost (DRC) of the network (ODRC spreadsheet(s) for each DU);
  - h. Details of the components at the network which were optimized and the ODRC as of June 30, 2006 (Appendix C of the valuation report); and
  - i. Reconciliation of any major variations between the ODRC asset valuation and previous valuations (Section 4 of the valuation report.).
13. For the land, building, system and non system fixed asset valuations for DECORP and CEPALCO, I performed the following functions:
- Acted as the Team Leader of AACI appraisal group for the inspection, research and pricing of the assets based on the optimized valuation methodology;
  - Inspected the land, building, system and non system fixed assets of both DUs together with the AACI and PBA appraisers;
  - Conducted researches and inquiries of prices from suppliers/contractors;
  - Priced non system fixed assets;
  - Reconciled inspected asset against the Fixed Asset Register of the two DUs as to quantity, description, acquisition date and historical cost;
  - Reviewed the results of the valuations before sending to PBA.
14. The appraised asset values as contained in the valuation reports for CEPALCO and DECORP in connection with the ongoing distribution price reset were independently determined by PBA / AACI and only minor adjustments made as a result of formal and independent consultations with the DUs.;
15. I am executing this Affidavit to prove the veracity of the foregoing.


Further, affiant sayeth naught.



**ALLAN P. PALMA**  
Affiant

**SUBSCRIBED AND SWORN** to before me this 6<sup>th</sup> day of October, 2006 at Makati City, Philippines. Affiant exhibited to me his community tax certificate No. 05445479 issued on March 16, 2006 at Manila.

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