



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

REQUEST FOR PROPOSALS

for the

**APPOINTMENT OF A REGULATORY RESET EXPERT
FOR THE VALUATION OF THE REGULATORY ASSET BASE OF
PRIVATELY OWNED ELECTRICITY DISTRIBUTION UTILITIES**

NOVEMBER 30, 2007

Republic of the Philippines
Energy Regulatory Commission
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1. INTRODUCTION

1.1 Background

The Energy Regulatory Commission (ERC) is the independent regulatory body for the Philippines electric power industry. It is in the process of promulgating a performance-based form of regulation (PBR) for all privately owned electricity Distribution Utilities (DUs) 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 for the second entry group of DUs in PBR for the period October 1, 2008 to September 30, 2012 (the Second Regulatory Period), is currently underway.

The mechanism for the calculation of the price cap and the procedure and timelines for the introduction of this cap, are described in the Rules for Setting Distribution Wheeling Rates for Privately Owned DUs Entering Performance Based Regulation [Second & Later Entry Points] (RDWR), which was released by the ERC on December 13, 2006.¹ More recently the ERC's interpretation of the RDWR and its intention with regard to the reset process for the Second Regulatory Period for the second entry group was described in a Regulatory Reset Issues Paper, dated January 10, 2007.^{2 3}

Following its publication, the ERC requested submissions on the Issues Paper and conducted a round of public consultations. After considering these submissions and the consultations, the ERC formulated its preliminary position on the reset process – as set out in a Position Paper, dated March 16, 2007.⁴

A key activity of the reset process going forward is the valuation of the regulatory asset base⁵ of the regulated DUs, using an optimized depreciated replacement cost (ODRC) methodology as described in the RDWR and the Position Paper. The return on the value of the regulatory asset base is one of the main building blocks used to determine the revenue to which a regulated utility is entitled when determining its price-cap.

The ERC is inviting proposals from a suitably qualified and experienced Regulatory Reset Expert to assist it with the asset valuation process. For the purposes of this proposal, an Expert could be an established company or team of individuals.

1.2 Services required

Three DUs make up the second entry group into PBR (Group B):

- COTABATO LIGHT & POWER COMPANY (CLPC)
- ILIGAN LIGHT & POWER, INCORPORATED (ILPI)
- MACTAN ELECTRIC COMPANY (MECO)

¹ This is available on the ERC website, (<http://www.erc.gov.ph>)

² This document is also available on the ERC website

³ Note that capitalized terms are defined in the RDWR, the Issues Paper or the Position Paper.

⁴ ERC report titled "Regulatory Reset for the October 2008 to September 2012 Regulatory Period for Privately Owned Distribution Utilities subject to Performance Based Regulation : Position Paper"

⁵ The definition of the regulatory asset base is provided in the Issues Paper, but essentially consists of those assets utilized by a DU to provide (regulated) electricity distribution services, including connection services.

The output from the assignment will be:

- a detailed valuation report for each utility in Group B, detailing the ODRC value of its Distribution System assets;
- a detailed valuation report for each utility in Group B, detailing the depreciated historical value of its Distribution System assets;
- assistance with the development of existing asset registers to ensure suitability for the ODRC valuation process, including capturing data on ages and remaining lives;
- conveying knowledge and skills in the ODRC valuation approach to local Philippines parties, including the Group B DUs, local appraisal and consulting electrical engineering companies and ERC staff; and
- assistance to the ERC with regard to explaining and defending the asset valuations during the public hearing process that will follow rate applications by the Group B DUs under the Regulatory Reset Process.

The scope of the work required is described in section 3 of this request for proposals (RFP).

1.3 Delivery schedule

In terms of the reset process, the ERC has to provide the final valuation information to the DUs by not later than April 26, 2008. To achieve this, the following program will be implemented :

ACTIVITY	REQUIRED DATE
Submission of proposals	January 18, 2008
Notification of successful party	January 31, 2008
Project start date	January 31, 2008
Kick-off meeting	February 5, 2008
Preliminary valuations provided to ERC	April 7, 2008
Final valuation reports submitted to ERC	April 18, 2008
Valuation information provided to utilities	April 26, 2008
Utilities submit revenue application	May 23, 2008
Draft determination published	October 17, 2008

1.4 Additional guidelines

As part of the valuation of the regulatory asset bases of the first entry group into PBR, the ERC established asset valuation guidelines⁶. These guidelines will apply to the valuation of the regulatory asset base of the Group B DUs as well.

In addition, the ERC has adopted a schedule of standard regulatory asset lives for electricity distribution assets, which will also apply to this valuation.⁷

⁶ ERC report titled "Asset Valuation Policy Guidelines for Privately Owned Distribution Utilities subject to Performance-based Regulation", dated August 9, 2006. The web-link for this document is : <http://www.erc.gov.ph/pdf/Asset%20Valuation%20Policy%20Guidelines%20for%20Private%20DUs%20subject%20to%20PBR%2008-09-2006.pdf>

⁷ ERC report titled "STANDARD ASSET LIVES FOR PHILIPPINES DISTRIBUTION UTILITIES", dated August 2006

2. GENERAL INFORMATION AND CONDITIONS

In submitting a proposal, it is assumed that the Expert has examined the RDWR, the Issues Paper, the Position Paper and the Asset Valuation Guidelines and understands the form of regulation and the asset valuation technique adopted in the Philippines. There is therefore no attempt in this RFP to explain the form of regulation being implemented, its methodology or the processes and timelines that will apply. Understanding this is a prerequisite for the successful execution of the assignment.

2.1 Issuing of the RFP

This RFP has been issued to parties after some research on the part of the ERC but without prior enquiries about the parties' interest. In addition, it has been published/posted on the ERC website. Experts, including those who were directly invited, who intend to submit a proposal should notify the ERC of their interest and ensure that the ERC is in receipt of the name and contact details, including an email address, of an individual to whom further communication with regard to the RFP can be sent.

2.2 Format of proposals

The ERC does not require a specific document layout, proposal format or tender forms – part of the evaluation process will be to ascertain how effective the Experts convey the required information in their proposals.

Proposals longer than 20 pages (excluding the proposed contract) will be marked down.⁸ The ERC is especially not interested in excessive 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.

2.3 Content of proposals

The following minimum information must be provided in the proposals.

2.3.1 Details of the Expert

Full contact details of the Expert submitting the proposal should be provided, as well as details of the person that can be contacted regarding the proposal.

The legal status and jurisdiction of the Expert making the proposal should also be indicated.

2.3.2 Scope of service

A description must be provided of the full scope of services offered by the Expert. This should demonstrate clear understanding of the requirements of the ERC and the Regulatory Reset Process.

2.3.3 Methodology

A clear description must be provided of the methodology proposed by the Expert for the valuation process and other requirements listed in the scope of work (section 3). This should conform to the valuation requirements described in the RDWR, the Issues Paper and the Preliminary Position Paper and should indicate how the required deliverables will be achieved.

⁸ using reasonable font sizes and spacing

All assumptions made by the Expert in developing this methodology should be explained. That includes the assumptions made about the support that will be provided by the ERC, utilities or other parties, noting the information provided in section 3.4 below.

The data-sources that the Expert intends to use for the valuations must be described. The ERC is also interested to understand how the Expert will manage situations where DU information records are incomplete or do not exist, or where information has to be gathered or verified from inspections in the field.

2.3.4 Team offered

The scope of work is of a magnitude that will require the Expert to offer a team for the assignment. Proposals must identify the individuals that will be working in the team, the roles they will play and the skills they will contribute. The reporting lines and responsibilities of each team member must be identified, as well as the team leader and the primary parties that will liaise with the ERC and the utilities.

2.3.5 Demonstration of relevant experience

Demonstrating the relevant qualifications, expertise and experience of the individuals who will make of the Expert's team is a critical component of the proposal.

Where the Expert is a company, the ERC is also interested in the relevant experience of the company and the further back-up it can provide (over and above the team offered for the proposal).

2.3.6 Form of contract

A pro forma of the contract that will be used for the project is attached (see discussion in section 2.10). Proposals are to indicate the name and nature of the Expert, as well as the individual(s) authorised to enter into the contract on behalf of the Expert.

2.3.7 Commercial details

The commercial terms and conditions, including the payment terms required by the Expert should be described. Any discounts or penalties that may apply and the conditions giving rise to these should be described. The required currency of payment should also be indicated.

2.3.8 Price

Full details of the offer price for the service must be provided. This price is to be indicated in Philippines Peso terms. This must be a fixed price, set for the duration of the contract and based on the scope of work described in the proposal.

The ERC accepts that there are uncertainties related to the quality of the asset information maintained by the utilities and that changes in the scope of work may therefore arise as a result. Proposals should therefore provide full details of how scope changes will be approached and how the cost for such changes will be calculated. It is however noted that scope changes will only be considered for situations that could not have reasonably been foreseen by Experts at the time of making the proposal.

The offer price should include all disbursements, including costs for travel (local and international), accommodation, meals, consumables, printing, communication, computer support, per diems and other allowances, security, support staff, safety clothing, visa and passport arrangements, and the like.

All costs related to the engagement of local appraisers, as described in section 2.16 should also be included in the offer price.

2.3.9 Confirmation of commitment to timelines

The timeline for the 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 in section 1.3 above.

Proposals are to contain detailed timelines, indicating the proposed work-flow and how the target dates will be met, as well as a stated commitment from the Expert in this regard.

2.3.10 Proposed set-up structure in the Philippines

While it is not a requirement that the Expert should have a permanent office or presence in the Philippines, the nature of the assignment is such that an extended local presence will be required, especially in Manila to interact with the ERC, but also at times in the centres where the other utilities are seated (Cotabato City, Iligan City & Lapu-Lapu City). Continual close interaction with the ERC and maintaining the involvement of ERC staff will be essential.

Proposals are therefore to contain details of the proposed set-up structures that Experts will implement while working on this assignment. This should include details of where they propose to locate, what back-office support will be provided, proposed communication channels, computer systems and security arrangements. (The cost for these structures should be included in the offer price.)

2.3.11 Transfer of knowledge

Proposals are to highlight how the Expert intends to manage a formal knowledge transfer process to staff of the ERC, DUs, local appraisers and local consulting engineers. This could include on-the-job training as well as formal workshops and training sessions.

2.3.12 Quality assurance

Proposals are to include details of the quality assurance procedures that will apply during the execution of this project. It should also be indicated if the Expert has any formal quality control procedures in place and whether he/she (or the company) has any registration in this regard.

2.4 Submission of proposals

Proposals are required to be delivered electronically (via email or fax) to the ERC or as hard copies along with an electronic version on diskette or compact disk. MS-Word or Adobe PDF format should be used. Proposals should be delivered not later than 12:00 (Philippines time) on January 18, 2008.

Proposals should be sent to :

Commissioner RAUF A. TAN
*Energy Regulatory Commission
16th Floor, Pacific Center Building
San Miguel Avenue, Ortigas Center
Pasig City, Philippines*

Email : ratan@erc.gov.ph

Phone : **00-63-2-6315997**

Receipt of electronically delivered proposals will be acknowledged by email.

2.5 Enquiries

Prior to the closing date, enquiries about the proposal or the work involved can be directed to:

REY ERNESTO G. REYES

Email : regreyes@erc.gov.ph

Phone : **00-63-2-6348641 or 00-63-2-9145000 loc. 116, 117 or 118**

Please note that such enquiries should be limited to aspects not already described in the RDWR, Issues Paper, Position Paper or the Asset Valuation Guidelines.

Answers provided on such queries will be distributed by email to all parties who acknowledged an intention to submit a proposal and for who the ERC has contact details.

2.6 Validity period

Proposals are to remain valid for a period of 60 days after the submission date.

2.7 Communication after the closing date

After the closing date, the proposals submitted are binding and changes will only be made on request of the ERC after mutual agreement between the ERC and the Expert. Proposals may not be withdrawn after the closing date.

The ERC may approach Experts to obtain more details about their proposals, or to clarify certain points. It may also request verification of information provided, including reputable referees that can be contacted to vouch for such information.

Experts are discouraged from unilaterally contacting the ERC regarding the proposals, unless there are compelling grounds to do so. Such attempts may be construed as interfering with the award process and could lead to the rejection of a proposal.

2.8 Advice to successful party

After evaluation, the ERC will advise the successful party by means of email or fax, followed by a confirmation letter. The Expert is required to acknowledge receipt of this advice within 24 hours of it having been sent, reconfirming their availability and commitment to the project. Failure to do so may result in the contract being awarded to another party.

It is intended to have a kick-off meeting in Manila, at the ERC offices on the date indicated in section 1.3. Besides the ERC oversight commissioner, staff and the ERC project manager, representatives of the three utilities will also be present at this meeting. The Expert's attendance (or a party with sufficient delegated authority) of this meeting is essential.

2.9 Advise to unsuccessful parties

Unsuccessful Experts will be notified of this by email or fax. The ERC will disclose only whether the proposal was accepted through the initial screening process and, if that was the case, the total score that it has awarded to the party's proposal, broken down by main category, as well as the score of the winning proposal. No further correspondence with regard to the award or this project will be entered into.

2.10 Form of Contract

2.10.1 Contract Parties

The ERC advises all interested parties that while it is issuing this request for proposal and while the Expert will report to the ERC, it will not be the counterparty to the contract with the Expert. Under the current regulatory arrangement for DUs entering PBR, funding for the regulatory reset processes is provided directly by all the privately owned DUs, who are regulated in this regard by the ERC. This includes those utilities not forming part of the second entry group into PBR.

The agreed funding mechanism requires the Expert to enter into two separate contracts, with:

- The Private Electric Power Operators Association Inc (PEPOA) and Manila Electric Company (Meralco)
- Bohol Light Company Inc. (BLCI)

In terms of the regulatory funding arrangements for the regulatory reset process in the Philippines, PEPOA represents its member utilities by virtue of a Special Power of Attorney. These member utilities are:

ANGELES ELECTRIC CORPORATION (AEC);
CABANATUAN ELECTRIC CORPORATION (CELCOR);
CAGAYAN ELECTRIC POWER AND LIGHT COMPANY, (CEPALCO);
COTABATO LIGHT AND POWER COMPANY, INCORPORATED (CLPC);
DAGUPAN ELECTRIC CORPORATION (DECORP);
DAVAO LIGHT AND POWER COMPANY (DLPC);
IBAAN ELECTRIC AND ENGINEERING CORPORATION (IEEC);
ILIGAN LIGHT AND POWER COMPANY, INCORPORATED (ILPI);
LA UNION ELECTRIC COMPANY (LUECO);
MACTAN ELECTRIC COMPANY (MECO);
PANAY ELECTRIC COMPANY (PECO);
SAN FERNANDO ELECTRIC LIGHT AND POWER COMPANY (SFELAPCO);
SUBIC ENERZONE CORPORATION (SEZC);
TARLAC ELECTRIC INCORPORATED (TEI); and
VISAYAN ELECTRIC COMPANY (VECO)

While PEPOA will be the contract party, payments in terms of the contract will be made individually by each of the member utilities. The method for submission of invoices and the payment procedure is described in section 2.10.4 below.

The regulatory funding mechanism have been formalised in terms of a Memorandum of Agreement between the ERC, PEPOA, Meralco and BLCI.

2.10.2 Pro forma contract

Given the nature of the contracts to be entered into and the difficulties associated with negotiating a different contract for each transaction, the ERC has drawn up a pro forma of the contract that will be used for this project. The pro forma contract has been previously agreed with all contract parties. A copy of this is attached.

The Expert is entitled to suggest changes to this contract as part of his/her proposal. However, such changes will only be considered by the ERC if the concerns pointed out are material. Delays associated with having to negotiate changes to the pro forma contract will not constitute grounds for extending the project duration.

If, in the ERC's opinion the changes suggested to the pro forma contract are not sufficiently justified, this will be discussed with the Expert and, if no satisfactory agreement can be reached, will result in disqualification of the proposal and its award to the next-best qualified party.

2.10.3 Contract negotiations

After being informed that its proposal has been accepted, the Expert will be required to prepare the contracts for the work, in accordance with the attached pro-forma contract, the terms and scope of work offered in its proposal and the allocated contract values. The details of the contract parties, as well as the proportional allocation of the contract value for each contract are indicated in the pro-forma contract.

The completed contracts are to be submitted to the ERC by the date of the kick-off meeting noted in section 1.3, who will in turn distribute these to the contract parties for their validation. Assuming no changes to the pro-forma contract are required by the Expert (and approved by the ERC), the contract parties will be given four working days to return the signed contracts to the ERC, who will then hand these to the Expert for its signature.

In case changes are made to the pro forma contract by the Expert, these will have to be negotiated with the contract parties, who will have four working days to provide their comments to the proposed changes. If, as a result, further negotiations are required to finalize the contracts, the ERC will not be party to the negotiations. Such negotiations must be concluded within ten working days after the kick-off meeting.

Failure to resolve the contract in this time may result in the cancellation of the award and awarding it to the next approved Expert. If this should arise as a result of material changes to the pro forma contract proposed by the Expert, the Expert will not be entitled to recover any costs incurred up to that stage.

2.10.4 Managing payment claims under the contracts

While the ERC will not be party to the contracts between the Expert and the other contract parties, all payment claims must be submitted to the ERC for prior approval, before these will be forwarded to the contract parties. Original, signed invoices must be submitted, providing sufficient detail of the progress for which payment is claimed to allow the ERC to reasonably assess the invoice. The ERC will consider the validity and reasonableness of these claims and, if satisfied that they are in accordance with the contracts and for work that has been completed to the satisfaction of the ERC at that stage, will approve and forward the invoices to the contract parties for payment.

If the ERC is not satisfied with the reasonableness of a claim, the Expert will be notified of this within five working days of receipt of the claim by the ERC, in which case a revised claim will have to be submitted.

Three separate invoices must be submitted – one made out to PEPOA, one to Meralco and one to BLCI. The values of each invoice should be in accordance with the proportional contribution of the three parties (as per the pro-forma contract). Furthermore, the invoices to PEPOA shall include a breakdown of the relative contribution required from each of its member utilities, as per the pro-forma contract.

Upon receipt of payment from any party, the Expert is required to submit proof of receipt to that party. That includes individual receipts to all 15 PEPOA member utilities.

The ERC will not become party to any contractual or payment dispute between the Expert and any of the contract parties. It will however assist the Expert in following up on overdue payments from the contract parties. If due to non-performance by a contract party in terms of its contract, it becomes necessary to take further steps, the ERC will assist in this regard by first informing the contract party of its intention to apply penalties for the non-performance, and then by applying these penalties.⁹

2.10.5 Contract language

The language for the contract will be English and all documentation, workshops, meetings and correspondence will be in English. That also applies to the proposal.

2.10.6 Governing law

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

2.10.7 Right to instruct utilities to award contract

The ERC reserves the right to instruct the DUs to enter into a contract with any Expert and, beyond providing the information described in section 2.9 above, is not obliged to explain its decision.

The ERC also reserves the right not to instruct the award of the contract, or to alter the scope of work of the contract that will be awarded, after renegotiating this with the successful Expert. This situation may arise following instruction from government or the courts, or from significant changes to the reset process or the DUs taking part in PBR.

2.11 Confidentiality

Under no circumstance will the successful Expert be allowed to divulge any information obtained from any DU or the ERC for the purposes of this assignment to any outside party, other than with the express, written permission of the ERC or the DU involved.

2.12 Conflicts of interest

Experts are to confirm that there are no existing or potential conflicts of interest that will arise out of this assignment. Details of assignments done in the past year for the DUs in the second entry group, or expected over the next year, should be provided.¹⁰

2.13 Insurance

The Expert is required to provide the following minimum insurance policies that must remain current for the duration of the contract, and for which proof must be provided on request:

- Professional indemnity insurance to a value of not less than US\$ 1.5 million
- Workplace, third party and other insurance as required under the jurisdiction of the Expert's home country

⁹ Under its regulatory powers, the ERC can apply penalties to DUs that do not conform to their regulatory obligations.

¹⁰ These assignments would not necessarily be considered to be conflicts of interest, but the ERC needs to understand where the potential for conflicts, or the potential for perceptions of conflicts of interest exist.

2.14 Replacing key personnel

Experts are not allowed to replace key personnel identified in their proposal, unless compelling reasons exist for this and it is agreed to in writing by the ERC and the contract parties (which agreement will not be unreasonably withheld).

2.15 Prior use of Regulatory Experts

The ERC notifies all parties that it has employed the services of a project manager for the Regulatory Reset, including for the preparation of the Issues Paper and the Preliminary Position Paper. In addition, it has relied on inputs from the project manager in the preparation of this RFP. To date, these project management services have been contracted from PB Associates (but may be provided by another party in future, should the ERC so desire).

The ERC wishes to state that this does not preclude PB Associates from submitting a proposal for the assignment if it should wish to do so, as has been agreed with them prior to requesting them for assistance with this RFP. A proposal from PB Associates will therefore be considered along with all others received. It will be subject to exactly the same evaluation criteria described in section 5, and will be impartially evaluated without showing any preference. The project manager will not take any part in, or have any insight into, the evaluation process.

2.16 Cooperation with the ERC project manager

The valuation Expert's contract will be managed by its project manager on behalf of the ERC, and the project management duties will include liaison with the Expert, leading regular progress meetings, the assessment and recommendation of progress payments, recommendation of intervention by the ERC when deemed necessary if progress is not satisfactory and regular liaison with the DUs involved. The Expert will be expected to cooperate closely with the project manager and act on the reasonable instructions of the project manager.

2.17 Contracts with local appraisal companies and electrical consulting engineers

It is a condition of the project that the successful Expert will enter into a subcontracting agreement with an accredited local appraisal company to assist it with the appraisal of land and building values and other non-network assets (and any other services as may be required by the Expert). The cost for this subcontract should be included in the offer price.

The ERC will notify the appraisal companies in advance that they may be approached by various parties, strongly suggesting that they should not enter into exclusive cooperation arrangements during the proposal stage with any single party. If this is found to be the case, to the extent that only a limited number of proposals are made because of such exclusivity agreements, the ERC will extend the number of appraisers who would be acceptable for this project.

Appraisal companies that have been accredited with the ERC are :

- a) Asian Appraisal Company Inc
21st Floor, 6788 Ayala Avenue
Oledan Square, Makati City
Email : aaci@pworld.net.ph
Telephone : (632) 8868181

Contact person : Ms. Filipina L. Tuazon

b) Royal Asia Appraisal Corporation

3rd Floor, Ave Maria Building
1517 Quezon Ave, West Triangle
Quezon City

Email : raac@skyinet.net
Telephone : (632) 3744311
Contact person : Ms. Rosemarie L. Abreu

c) Sallmanns Phil. Inc

Unit 804, Antel 2000 Corporate Centre
121 Valero St, Salcedo Village, Makati City

Email : manila@sallmanns.com
Telephone : (632) 8454642/ (032) 845 4643
Contact person : Mr. Wenceslao D. Fuentes

d) Cuervo Appraisers Inc

2nd Floor, Padilla Building
Emerald Ave, Ortigas Centre
Pasig City

Email : info@cuervoappraisers.com
Telephone : (632) 631 1645 to 49
Contact Person : Mr. Antonio G. Marty

In addition, the Expert will be required to involve local (Philippines) electrical consulting engineers (a minimum of two) in the valuation project, with the view of developing a local knowledge base that can be used on future asset valuation projects. These local engineers can be employed by local companies or branch offices of international consulting engineering companies, provided that the electrical engineers involved are identified (with their relevant experience) and that it is certified that these engineers are practicing for the majority of their time in the Philippines¹¹.

¹¹ Engineers that work on short-term international assignments outside the country on a regular basis are acceptable, provided that these assignments do not take up more than 35% of the engineer's working time in any calendar year.

3. SCOPE OF WORK

The scope of work is as described for the Regulatory Reset Expert involved with the valuation of the Regulatory Asset Base in the RDWR, the Issues Paper and the Position Paper. It is therefore essential that all parties are familiar with these documents before submitting their proposals.

As noted in section 1.2, the output from the assignment will be:

- a detailed valuation report for each utility, detailing the ODRC value of its Distribution System assets (including non-network assets);
- a detailed valuation report for each utility, detailing the depreciated historical value of its Distribution System assets;
- a detailed spreadsheet-based asset register for each utility, highlighting the nature, weighted age, replacement cost, optimised replacement cost, optimised depreciated replacement cost, historical cost, depreciated historical cost, and weighted remaining life of each asset category;
- conveying of knowledge and skills in the ODRC valuation approach to local parties; and
- assistance to the ERC with regard to explaining and defending the asset valuations during the public hearing process that will follow the rate applications by DUs.

Four copies of the valuation reports must be delivered to the ERC, in paper format as well as on compact diskette or compact disk (in MS Word and MS Excel format). After final approval of the report by the ERC, three further copies of its valuation report must be delivered to each DU (paper and electronic format)

The scope of the work required is described below. It should be noted that this description provides an indication of the work required under this project, but is not intended to be exhaustive. Experts have to consider the required outputs and include all further activities that may be required to successfully deliver these.

3.1 Outline description of the Distribution Systems to be valued

In order to gain a general understanding of the likely scope of the work involved, Experts may wish to consider the following network statistics. If further information is required, it is the responsibility of the Experts to collect that prior to submitting their proposals.

3.1.1 CLPC

Franchise area	:	Cotabato City & Portions of the Municipalities of Sultan Kudarat & Dinaig in Mindanao
Customers served	:	26,911 (December 31, 2006)
Size of franchise area	:	191.20 sq.km.
Energy sold	:	114,302.35 MWh (2005)
Maximum demand	:	21.384 MW (2005)
Bulk supply points	:	TransCo Nuling Substation located at Pinaring, Sultan Kudarat

Major substations	:	2 Substations - 12 MVA located at CLP Compound, Sinsuat Ave., Cotabato City & 15 MVA located at Salimbao, Sultan Kudarat
Subtransmission line length	:	4 km. (December 31, 2006)
Distribution line length	:	217.82 circuit km. (December 31, 2006)
Appraised value of asset base at last filing	:	<i>January 11, 2002</i>
Cost of Reproduction New	:	PhP1,073,734,200
Sound Value	:	PhP427,785,700

3.1.2 ILPI

Franchise area	:	Iligan City in Mindanao
Customers served	:	44,203 (January 2007)
Size of franchise area	:	no less than 813.37 sq.km.
Energy sold	:	169,797.11 MWh (2005)
Maximum demand	:	33.248 MW (2005)
Bulk supply points	:	Pala-o Metering Point in Pala-o, Iligan City, Kiwalan Metering Point in Kiwalan, Iligan City, & Overton Metering point in Ma. Cristina, Iligan City, all in the Island of Mindanao
Major substations	:	2 Substations located in Pala-o & Kiwalan
Subtransmission line length	:	12.1 km.
Distribution line length	:	434 circuit km.
Appraised value of asset base at last filing	:	(figures from appraisal report as of June 30, 2003 under the recently filed Rate Case docketed as ERC Case No. 2007-034 RC)
Cost of Reproduction New	:	PhP557,057,400
Sound Value	:	PhP296,938,300

3.1.3 MECO

Franchise area	:	Lapulapu City and Municipality of Cordova
Customers served (2006)	:	54, 516
Size of franchise area	:	7, 693.46 hectares
Energy sold in 2003	:	169,543,456 kWh
Maximum demand (2003)	:	35,522 MW
Bulk supply points	:	4
Substations	:	3
Subtransmission line length	:	2.461 circuit km
Distribution line length	:	172 circuit km
Appraised value of asset base at last filing	:	1999
Cost of Reproduction New	:	PhP 372,445,000

Sound Value : PhP 295,303,000

3.2 Technical component

3.2.1 General valuation principles

The following general valuation principles are described in the RDWR, the Issues Paper, the Position Paper and the Valuation Guidelines.

- a) Re-evaluation of assets can be based on the indexation of historic costs, absolute valuation by replacement cost analysis, or absolute valuation using modern equivalent asset analysis. For the reset process, valuation will make use of a mix of these three methods, using each where most appropriate. The use of the various methods for various parts of the asset base must be described and justified in the valuation report.
- b) The valuation must be undertaken utilising more than single weighted-asset categories – details of the main assets in each category are required.
- c) Revaluation details must be reconciled back to the DUs' asset registers or general ledgers, and this information must be provided in the valuation reports.
- d) The weighted average asset age must be established for each asset category. This should be based on an assessment of average asset age of the main components groups making up each category.
- e) The asset categories that will be used are as follows :
 - 1) Regulated Distribution Services Assets
 - i. Distribution services
 - Land and Land Rights (dedicated to distribution purposes)
 - Structures and Improvements (dedicated to distribution purposes)
 - Station Equipment
 - Power transformers
 - Switchgear
 - Protective equipment
 - Metering and control equipment
 - Communications equipment
 - Other station equipment
 - Poles, Towers and Fixtures – Distribution
 - Overhead Conductors and Devices – Distribution
 - Underground Conduits – Distribution; Customer
 - Underground Conductors and Devices – Distribution
 - Line Transformers – Distribution
 - Power conditioning equipment¹²
 - Services
 - Meters, Metering Instruments & Metering Transformers – Distribution purposes

¹² This refers to equipment such as capacitor banks for power factor correction, voltage regulators, generators used for spinning reserve or voltage stability, VAR compensators etc..

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- Information technology equipment (dedicated to distribution purposes)
 - Regulated Entity property on Consumers' Premises (not forming part of Distribution Connection Assets)
 - Street Lights and Signal Systems
 - Submarine Cables
- ii. General Plant (Non-network Assets)
- Land and Land Rights (non-network related)
 - Structures and Improvements (non-network related)
 - Office Furniture and Equipment
 - Transportation Equipment
 - Stores Equipment
 - Tools, Shop and Garage Equipment
 - Laboratory Equipment
 - Information systems equipment (non-network related)
 - Power-operated Equipment
 - Communication Plant and Equipment
 - Miscellaneous Equipment
- iii. Materials and Supplies, including spares
- iv. Transferred Subtransmission Assets
- 2) Distribution Connection Services Assets
- i. Distribution services
- Poles, Towers and Fixtures – Customer
 - Overhead Conductors and Devices – Customer
 - Underground Conduits –Customer
 - Underground Conductors and Devices –Customer
 - Line Transformers –Customer
 - Information technology equipment (dedicated to Distribution Connection Services)
- ii. General Plant (Non-network Assets)
- Land and Land Rights (non-network related)
 - Structures and Improvements (non-network related)
 - Office Furniture and Equipment
 - Transportation Equipment
 - Stores Equipment
 - Tools, Shop and Garage Equipment
 - Laboratory Equipment
 - Information systems equipment (non-network related)

- Power-operated Equipment
 - Communication Plant and Equipment
 - Miscellaneous Equipment
- iii. Materials and Supplies, including spares

3) Regulated Retail Services Assets

- Meters, Metering Instruments & Metering Transformers – Consumer consumption metering
 - Land and Land Rights
 - Structures and Improvements
 - Office Furniture and Equipment
 - Transportation Equipment
 - Stores Equipment
 - Tools, Shop and Garage Equipment
 - Laboratory Equipment
 - Information systems equipment
 - Communication Plant and Equipment
 - Miscellaneous Equipment
- f) The optimisation principles that will apply are described in the Valuation Guidelines.
- g) As noted before, the ERC has previously commissioned the preparation of a report on standard asset lives for distribution utility assets which will apply again for this project. If deemed necessary by the Expert, changes may be suggested, which may be considered by the ERC.

3.2.2 General preparatory activities

- a) Consider the existing asset information records of utilities, and by way of sampling and testing, ascertain the accuracy and comprehensiveness of such records. Based on the findings, make and implement suggestions on how to improve the accuracy and address gaps in the asset records to ensure that they are suitable for the valuation required in terms of the regulatory reset.
- b) Consider the most appropriate manner of valuing various asset categories, applying the three methodologies noted above.

3.2.3 Valuation of the assets

- a) Conduct several on-site audits at various representative parts of the three distribution networks, to ascertain the accuracy of the asset records maintained by the utilities. All major areas of the distribution networks should be included, including 100 % coverage of major assets (major substations, bulk supply points, and major control centres), as well as sufficient samples of all other asset categories to allow statistically accurate judgements. (The number of on-site audits the Expert intends to take should be discussed with and approved by the ERC early in the process, demonstrating that these are sufficient to provide accurate valuation reports.) Based on the findings, recommend if further steps are required to improve accuracy levels, or how to make allowance in the final valuation reports for the inaccuracies encountered.

- b) During the on-site audits, ascertain the condition of assets, assessing the asset ages and remaining lives. This will be compared with historical records, to assess the accuracy thereof. Based on the findings, recommend if further steps are required to improve accuracy levels, or how to make allowance in the final valuation reports for the inaccuracies encountered.
- c) Based on available information records, the information obtained during the site audits and the recommended approach to deal with inconsistencies, information gaps and inaccuracies, determine the replacement cost of the various asset categories and all major assets included in these categories. Full details of the methodology applied and the reference data used for such valuations must be provided.
- d) Based on the information available and obtained during the site audits, calculate the depreciated replacement value of all asset categories and the major assets included in these categories. For this, straight-line depreciation will be applied over the standard life of the asset under consideration. The age of the asset, as established from the utility's information sources or as assessed during the site audit, will be used. Assets at the end of their normal lives that are retained in service will not be depreciated to less than 5% of their ORC value. Full details of the calculations and assumptions used must be provided.
- e) Based on a consideration of network layouts and current utilisation levels of major network components, optimise the network configuration, to determine the ODRC of all asset categories and the major assets included in these categories. Full details of the calculations and assumptions used must be maintained.
- f) The value of landholdings owned by the utilities and buildings or structures erected on them must be separately assessed, using local property valuation indices. This includes the value of easements and rights of way.
- g) The value of general (non network) plant will be based on the asset registers provided by the utilities, using a replacement cost technique and straight-line depreciation over standard asset lives.
- h) The Expert must determine and indicate the extent to which value-added tax (VAT) is included in the value of the asset base. VAT is now a pass-through cost for utilities but this has not historically been the case. Prior to 2005 utilities had to pay VAT on local purchase which could not be recovered, and they are therefore entitled to a return on this investment.

3.3 Non-technical component

The proposed valuation will be the first time that the ODRC methodology is systematically applied to the electricity distribution companies in the Second Entry Group. This has some unique implications for the project, requiring further inputs, as described below.

3.3.1 Close cooperation with DUs

- a) Existing data-records are not set up for ODRC valuation and it is will therefore be a requirement to cooperate very closely with utility personnel to come up with efficient solutions and appropriate record structures that can also be used for future valuations.
- b) A significant on-site auditing component will be needed. This will require coordination and arrangements with the utilities.
- c) For the optimisation process, it will be necessary to have a good understanding of the manner in which assets are applied, the network design philosophies and the extent to

which assets are being utilised or expected to be utilised over the planning windows. For this, the close cooperation of the utilities will be essential.

Cooperating and coordinating with the DUs forms part of the scope of work. This includes making all the required arrangements to identify information, scheduling of meetings and site visits, and working through existing information. DUs have been instructed to cooperate with the Expert, but for the success of the project, a high degree of relationship management and communication skills, as well as an understanding of and empathy with the working environment and conditions and work-loads faced by utilities will be essential.

3.3.2 Close cooperation with the ERC and their project manager

The ERC has decided to use a single Expert (or team) only for the valuation process, in order to ensure a consistent and efficient approach, and to remain thoroughly up to date with progress and problems encountered, so that early action can be taken to address issues as they arise. Such action could involve bringing in additional resources or making changes to the reset process.

Close coordination and regular liaison with the ERC Commissioners, project manager and staff will therefore be an integral part of the scope of work. The Expert will also be required to prepare two-weekly progress reports, attend regular progress monitoring meetings and, from time to time, present progress reports directly to the Commissioners. Any important issues arising from the work should be brought to the attention of the ERC straight away, with suggestions for appropriate actions to address these. This may also require presentations to the Commissioners.

Meetings with ERC staff and presentations to Commissioners will adhere to the ERC schedules and procedures. Only in exceptional cases will requests for extraordinary Commission meetings be considered.

The ERC project manager should have full access to the working records of the Expert during the course of the project, and may also from time to time sit in on project meetings of the Expert and accompany the Expert on site inspections or meetings with the DUs.

3.3.3 Conveying of knowledge

It is a requirement of this project that knowledge about the ODRC valuation process is transferred to local personnel not only of the ERC, but also of the DUs, local appraisal companies and local consulting engineers. All activities related to this, including preparations, arranging and conducting of workshops or training sessions and providing training material, form part of the scope of work.

For the proposal, it can be assumed that basic training venues (as appropriate) will be made available by the ERC or the utilities, but there may not be presentation equipment available.

3.3.4 Presentation and discussion of results

After the valuation reports have been provided to the utilities, it is anticipated that they will wish to discuss these and they may also have queries about aspects thereof. As part of the scope of work, the Expert will have to be available to present the reports to the utilities and for follow-up discussions. The Expert should also be available for answering queries that may arise at a later stage (which could be answered from a remote location).

3.3.5 Public hearings after the price applications

The DUs are scheduled to submit their revenue applications for the Second Regulatory Period by May 20, 2008 . Following this, there will be a series of expository hearing in the

three franchise areas during June 2008, as well as a series of public hearings in the same areas during the period July to August 2008.¹³ The Expert will be required to be present for up to six hearing days, plus associated travel time to answer any questions relating to the asset valuation and should provide for that in its proposal. While the ERC will attempt to arrange these hearings on consecutive days (two separate series), this cannot be guaranteed. The dates may also be amended during the course of the reset process.

In addition, the Expert is also required to assist the ERC in considering and preparing responses to the submissions on the rate applications, in as far as these relate to asset valuation.

3.3.6 Security

It should be noted that some of the on-site audits are likely to be carried out in areas where additional security arrangements may be required. While the DUs will provide personnel to accompany the Expert(s) during these audits, any additional security arrangements will be to the account of the Expert. (Note that the ERC does not accept any responsibility for the security or wellbeing of the Expert(s) during or after the execution of this project.)

3.3.7 Preparation of contract documents

It will be the responsibility of the successful Expert to prepare the contracts for the project with each utility (which will be in accordance with the requirements in section 2.10).

3.4 Support provided by the DUs and the ERC

In table 1 below, an indicative breakdown is provided of the support that will be provided for various activities to the Expert by the DUs and the ERC. This list is not intended to be exhaustive, but Experts are not to assume more assistance than that indicated.

Table 1 : Indicative support to be provided on the project

Activity	Support to be provided	Responsible
General liaison with utilities and high-level queries	High-level support, introduction to relevant parties. Overview presentation on the DU.	DU regulatory manager or ERC project manager
Overall utility coordination & assistance with the project	Part time assistant(s) allocated for the duration of the project	DUs
Accessing existing asset records	Part time assistant(s) to help locate, access and interpret records during the first part of the project	DUs
Interpreting records and technical queries	Access to technical staff	DUs on an as-required basis
Site inspections	Descriptions of where installations are and where the closest depots are. Technical staff to meet Expert at nearest depot and accompany on inspections, providing transport from depot, unlocking sites, making safe, etc.. Also security staff, where deemed necessary by DUs.	DUs on an as-required basis
Discussions on standard asset lives	Senior network or asset management staff	DUs, for specific meetings

¹³ These dates are preliminary only and may be changed during the course of the reset process

Discussions on network utilisation & design philosophy, as well as planning window information for optimisation process	Senior network or asset management staff	DUs, on an as-required basis
ERC liaison and reporting	Coordination, meeting arrangements and distribution of material	ERC project manager and staff
Regular update meetings, resolving issues	Discussions and liaison with ERC	ERC project manager and staff

4. EXPERTISE REQUIRED

In this section, the required expertise and experience of the Expert for the project is described.

All this expertise and experience does not necessary have to revolve in a single party, but could be offered by the combined team. It is however essential that each team member is experienced and capable in the segment of the work with which he/she will be involved.

4.1 Technical expertise

In terms of the RDWR, as amended in the Issues Paper and the Preliminary Position Paper, the following minimum technical requirements must be met by the Expert.

Asset valuation

Have experience in :

- valuing electricity distribution network assets using an optimized replacement cost valuation methodology;
- valuing non-network assets in the Philippines, including land and buildings, using a fair value methodology;¹⁴
- preparing fixed asset registers for valuation purposes;
- assisting regulated entities and/or regulators in reviewing or determining regulatory asset bases used for the purposes of incentive or performance based regulatory arrangements; and
- developing submissions to electricity regulators or as a regulator/regulator's adviser in examining such submissions.

Have qualifications in (see below):

- Engineering;
- Accounting; and
- Business or Commerce.

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:

- 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

¹⁴ Using a local appraiser with Philippine experience is considered essential for the valuation of land and buildings. ODRC valuation experience of distribution assets in other similar jurisdictions is however acceptable.

- 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.

4.2 Understanding of the physical and the regulatory environment

For the success of the assignment and the ability to complete it within the required timeframes, the ERC considers that some of the RDWR criteria above have to be further strengthened. It therefore requires Experts to demonstrate :

- good understanding of the role that asset valuation plays in the Philippines regulatory environment;
- extensive hands-on experience in the application of asset optimisation for electricity distribution networks;
- good understanding of the environment in which the private DUs in the Philippines operate, the level of skills and quality of network information likely to be encountered, the general availability of plant and equipment, and the operational and cash-flow restrictions that these utilities face;
- good understanding of the trade-offs that exist in developing economies like that of the Philippines with regard to capital and operating expenditure and the impact this has on asset values; and
- good understanding of the physical environment in which the distribution networks are erected and the use that they are subjected to.

4.3 Communication skills

Close cooperation with the DUs and the ERC, the ability to communicate well, and the ability to effectively convey information are cornerstones of this assignment. As such it is imperative that the Expert demonstrates experience of:

- having worked extensively and successfully in environments where English is a secondary language, and an ability to ensure understanding and effective communication in such environments also in the manner in which reports are written;
- having worked extensively and successfully in developing countries, and an understanding of how that impacts on the working environment, understanding of the concepts involved, decision-making and communication; and
- the ability to present information effectively at Commission or Board level, and during public hearings.

5. EVALUATION CRITERIA

5.1 The process

In evaluating the proposals received, the ERC will consider the factors noted below, with the weightings indicated attached to each. The evaluation process that will be followed will be as follows :

- 1) The experience and reputation factors will be considered on its own. Proposals not sufficiently demonstrating such experience, will not be further evaluated.
- 2) The experience and reputation factors will be rated and scored for each qualifying proposal, as described below. The scores will be summed to give a total for this section and the top eight proposals will be selected for further evaluation.
- 3) The technical factors for the eight remaining proposals will be rated and the scores calculated (in the same manner). From this process, the four top ranking proposals will be selected (based on adding the scores for the technical and experience factors).
- 4) For these last remaining proposals, the ranking against all remaining factors will be done. The total score per proposal will then be calculated.
- 5) The highest scoring proposal will be the preferred option for the project.

Since electronic submissions will be acceptable and the format of the proposals is not prescriptive, the ERC will not require the experience, technical and price parts of proposals to be submitted separately.

5.2 The evaluation factors and weighting

Experience and reputation factors (total weight 30%)

Factor considered	Weighting
Experience of ODRC valuation in a PBR setting	10%
Experience of working for regulators and/or regulated entities in similar regulatory environments	10%
Understanding of the physical and social environment and demonstrated communication ability	5%
Acceptability to the regulated DUs <small>(see note 1 below)</small>	5%

Technical factors (total weight 30%)

Factor considered	Weighting
Methodology proposed (also demonstrating understanding of the RDWR and subsequent papers)	10%
Composition and technical expertise of team offered	10%
Ability to meet required timeline and offer back-up	7.5%
Comprehensiveness of offer	2.5%

Price and commercial factors (total weight 30%)

Factor considered	Weighting
Offer price	20%
Commercial terms and form of contract offered	5%
Terms and cost for scope changes	5%

Other factors (total weight 10%)

Factor considered	Weighting
Proposed working set-up in the Philippines	5%
Knowledge transfer	5%

Note : (1) As effective cooperation with the DUs will be essential for the success of the valuation project, the ERC intends to seek and acknowledge their inputs and preferences for an Expert and in particular past experience they have had working with the Expert.

In situations where the top proposals are ranked very closely (within 2.5% apart), the ERC may consider the following additional criteria :

- Reputation or company brand
- Responsiveness of the Expert
- Quality of the proposal (thoroughness, care in presentation and clarity)

5.3 Calculating the scores

To score an evaluation factor, a rating of 0 to 5 will be allocated to it, based on the judgement of the ERC after considering the requirements discussed in the earlier sections of this Request for Proposals. A higher value will indicate better performance. Where allocations have to be made for a factor that is not suitable for a qualitative rating, for example the price offered, the allocation will be based on a ranking of the proposals received for that factor.

A score will be determined for each factor, based on the product of its weighting and the rating (as a percentage out of 5) allocated by the ERC. The total score for a proposal will be the sum of the scores for the factors.

5.4 Non-involvement of the project manager in the evaluation

The ERC notes that their (external) project manager may help the ERC to prepare evaluation spreadsheets and to clearly define what would be considered in rating each evaluation factors. However, once the framework is in place, the project manager will not be involved in the evaluation of the proposals or in any correspondence with Experts until the preferred Expert has been identified by the ERC, and will also not in any way advise or influence the ratings applied by the ERC. The evaluation and identification of the preferred Expert will be handled by Commissioners and internal ERC staff only.

5.5 Grounds for rejecting proposals

The ERC notes that, despite its total score, the following factors will be considered grounds for out-of-hand rejection of a proposal:

- omitting to describe any one of the required aspects of the proposal listed in section 2.3 above;
- attempts by an Expert or any party engaged by or related to an Expert to bribe or influence any official of the ERC or the regulated DUs with regard to the award of this contract;
- evidence of untruths or unjustified embellishments in a proposal;

- evidence of collusion between any Expert and an ERC staff member with regard to this project;¹⁵
- failing to offer a fixed price;
- commercial terms that are unacceptable to the ERC; and
- failure to adhere to the conditions of this RFP.

¹⁵ Please note section 2.15. To avoid any doubt, the ERC notes that the existing professional relationship between the ERC and PB Associates is not considered to constitute collusion.