

Performance Based Regulation of Philippines Electricity Distribution Companies

REGULATORY TRAINING COURSE

Cebu – November 5 & 6, 2007
Baguio – November 8 & 9, 2007

SESSION 2B – VALUING NON-NETWORK FIXED ASSETS



NON-NETWORK FIXED ASSETS

DEFINITION

- **Assets forming part of the Regulatory Asset Base**
- **Requirement to support the Regulated Distribution Services**
- **Not classified as Distribution System Assets or Distribution Connection Assets**

CATEGORIZATION

GENERAL PLANT

LAND

STRUCTURES AND IMPROVEMENTS

OFFICE FURNITURE AND EQUIPMENT

TRANSPORTATION EQUIPMENT

STORES EQUIPMENT

TOOLS, SHOP AND GARAGE EQUIPMENT

LABORATORY EQUIPMENT

INFORMATION SYSTEMS EQUIPMENT

POWER OPERATED EQUIPMENT

COMMUNICATION PLANT AND EQUIPMENT

MISCELLANEOUS EQUIPMENT

CLASSIFICATION

SPECIALIZED

- UNIQUE TO THE POWER DISTRIBUTION INDUSTRY
- NOT NORMALLY TRADED IN SECONDARY MARKET PLACE
- VALUATION USING COST APPROACH TO VALUE
 - CURRENT REPLACEMENT COST OR CURRENT REPRODUCTION COST WHICHEVER IS LOWER

NON-SPECIALIZED

- NOT SPECIFIC/UNIQUE TO THE POWER DISTRIBUTION INDUSTRY
- CAN EASILY BE ACQUIRED AND SOLD IN THE ORDINARY COURSE OF BUSINESS
- VALUATION USING MARKET DATA APPROACH TO VALUE
 - IF NO AVAILABLE CURRENT MARKET DATA, COST APPROACH TO VALUE IS ADOPTED

OPTIMIZATION ADJUSTMENTS

- **OVER DESIGN**
- **OVER CAPACITY**
- **REDUNDANT/SURPLUS ASSETS**
- **EXPROPRIATION**
- **STRAIGHT LINE DEPRECIATION USING A PRE-DETERMINED STANDARD ASSET LIVES**
 - **Level of Use (Retirement Year = end of useful economic life)**
 - **Observed age profile of assets**
 - **Technological advances (better materials and design)**
 - **Level of maintenance practices**
 - **Industry experiences**
 - **Environmental conditions**

PECULIARITIES OF OPTIMIZED VALUATION

- **FIXED RESIDUAL VALUE FOR UTILIZED ASSETS WITH EXPIRED STANDARD ASSET LIVES (5% of Optimized Replacement Cost)**
- **STRAIGHT LINE DEPRECIATION USING THE PRE-DETERMINED STANDARD ASSET LIVES**
- **NEED THE UPDATED INVENTORY LIST OF DISTRIBUTION UTILITY STATING THE LOCATION, TYPE, PARTICULARS OF ASSET, DATE ACQUIRED AND HISTORICAL / ACQUISITION COST AND DEPRECIATED HISTORICAL / ACQUISITION COST**

DOCUMENTS NEEDED FROM DISTRIBUTION UTILITY

- **LIST OF ASSETS FROM THE FIXED ASSET REGISTER SHOWING THE FOLLOWING:**
 - Location
 - Type
 - Date Acquired
 - Historical/Acquisition Cost
 - Depreciated Historical / Acquisition Cost
- **LAND**
 - Proof of ownership - (Xerox copies of TCT, Tax Declaration, or Deed of Sale)
 - Lot Plan / Vicinity Map
- **STRUCTURES**
 - Building plans (if available)
- **TRANSPORTATION EQUIPMENT**
 - Copy of Certificate of Registration

Thank You

Proceed to next session

