PRIVATIZING THE CORPORACION DOMINICANA DE ELECTRICIDAD (CDE)

Organizational & Operational Improvement Project

September 30, 1991

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Price Waterhouse

September 30, 1991

Ing Marco A Subero Sajium
General Administrator
Corporación Dominicana de Electricidad
Main Office
Santo Domingo, Dominican Republic

Organizational & Operational Improvement Project for
Corporación Dominicana de Electricidad (CDE)

Dear Ing Subero

We are pleased to present our report for the above mentioned project Our principle findings and recommendations for each of the three components of the project are summarized in the Executive Summary and discussed in full detail in the body of this report

We wish to express our sincere appreciation for the cooperation and assistance which you, Lic Moises Blanco, and the CDE personnel provided us throughout this effort

Please do not hesitate to contact me, or Mr James Pauli, at telephone (202) 296-0800 with any questions or concerns

Yours very truly,

K Rahbani

Kami Rahbani
International Consulting Services

PRIVATIZATION OF CORPORACION DOMINICANA DE ELECTRICIDAD (CDE)

Organizational & Operational Improvement Project

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Organizational & Operational Improvement Project

EXECUTIVE SUMMARY

As the sole entity responsible for the generation, transmission, and distribution of the public electric service in the Dominican Republic, the efficiency of the Corporacion Dominicana de Electricidad (CDE) is a critical factor in the socio-economic development of the country The considerable technical and non-technical losses of electric power the CDE is currently experiencing has severely dampened the pace of development in the Dominican Republic The CDE recognizes that it must necessarily turn to the private sector and its productivity-oriented practices and greater sources of capital, in order to improve its operational efficiency and financial viability

Recent developments have enhanced the prospects for involving the private sector in activities which have traditionally been the province of CDE Despite the progress achieved to date significant issues remain to be addressed before privatization may be accomplished

USAID/Santo Domingo contracted with Price Waterhouse to provide technical assistance to the Corporacion Dominicana de Electricidad (CDE) to assess the CDE's organization and operations and recommend steps to properly prepare the CDE for contracting-out CDE functions to the private sector in the near-term and for privatization in the long-term The work performed under this project consisted of the following three tasks

a Review and preparation of a statement of work for contracting-out Customer Billing & Revenue Collection of the CDE

b Identification of other potential, non-primary functions for Contracting-Out

c Action Plan and Options for Privatizing CDE

In recent years, the generation and distribution of electricity in the Dominican Republic has deteriorated considerably, to the extent that reportedly out of an installed capacity of over 1,100 MW the total generation by CDE plant is reduced to just over some 400 MW To increase the current generation the Government of the Dominican Republic has obtained a US$105m loan from the World Bank, and a US$148m loan from the Interamerican Development Bank for the rehabilitation of generation plants and transmission and distribution lines in selected areas of the country This rehabilitation, however, should be of a financial, institutional, and physical nature

Achieving full efficiency and total rehabilitation, however, will not be feasible and sustainable without the involvement of the private sector We believe that in order to be able to maintain an acceptable level of efficiency and to sustain the needed level of generation and distribution of electricity, the CDE should be privatized We believe that as part of the current rehabilitation plan CDE can subcontract some of the commercial functions currently performed in-house, and can enter into management contracts with other utility companies to take over the overall management of specific units of the organization, or lease out certain facilities such as specific plants or distribution networks in a particular geographical area This approach would result in a more efficient CDE and thus, achieve both the rehabilitation and privatization objectives

Contracting out of Commercial Services (Tasks A and B)

A means to support CDE's strategy for involving the private sector is the contracting-out of primary commercial functions as well as support functions which are not directly connected with the generation or transmission of electricity Because of the sensitive nature of commercial functions involving billing responsibilities, these functions are traditionally maintained by the utility companies However, the proper controls and discipline the contracting-out of discrete commercial functions could result in improved efficiencies Other functions we identified as candidates for contracting-out have been successfully performed by contractors for the United States Government and other governments throughout the world

At the time of our visit, the CDE had issued two solicitations for contracting-out of billing and collection functions in two of the five regions of the country, and the selection of the winning proposal for the East Zone solicitation was underway Our review of the solicitations and selected proposals submitted revealed that the CDE was planning to contract both the billing and collection functions to one contractor within each geographical region This finding raised several issues of potential exposure of CDE to unsatisfactory contractual commitments

In general, we believe that unless the CDE commits additional resources to develop a very sophisticated monitoring system, the current resources and internal controls are inadequate for ensuring that one contractor performs all of the identified functions within the prescribed standards, and reports all of the related financial activity to CDE Instead, better controls and reporting incentives would result from separating the billing, customer service, and technical support services from the collection function and contracting them to two separate contractors

Exhibit I, Contracting-out of Commercial Functions, clearly depicts the division of these commercial functions and their related responsibilities between the contractors As Exhibit II Workflow of Commercial Functions, demonstrates this segregation of duties inherently provides self-monitoring controls The interfaces among customer service, technical

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CORPORACION DOMINICANA DE ELECTRICIDAD
CONTRACTING-OUT OF COMMERCIAL FUNCTIONS

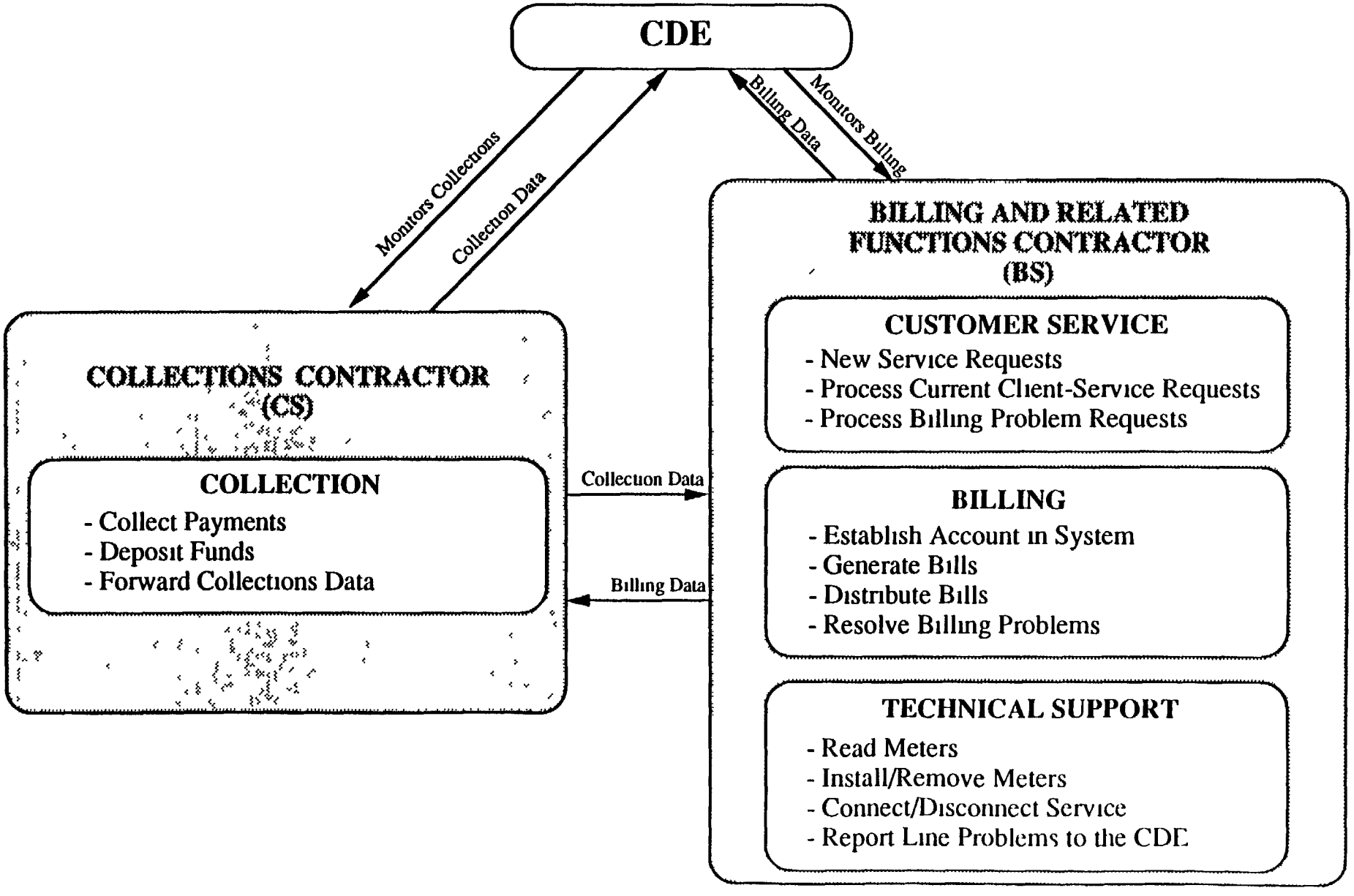

Exhibit I

CORPORACION DOMINICANA DE ELECTRICIDAD
WORK FLOW OF COMMERCIAL FUNCTIONS

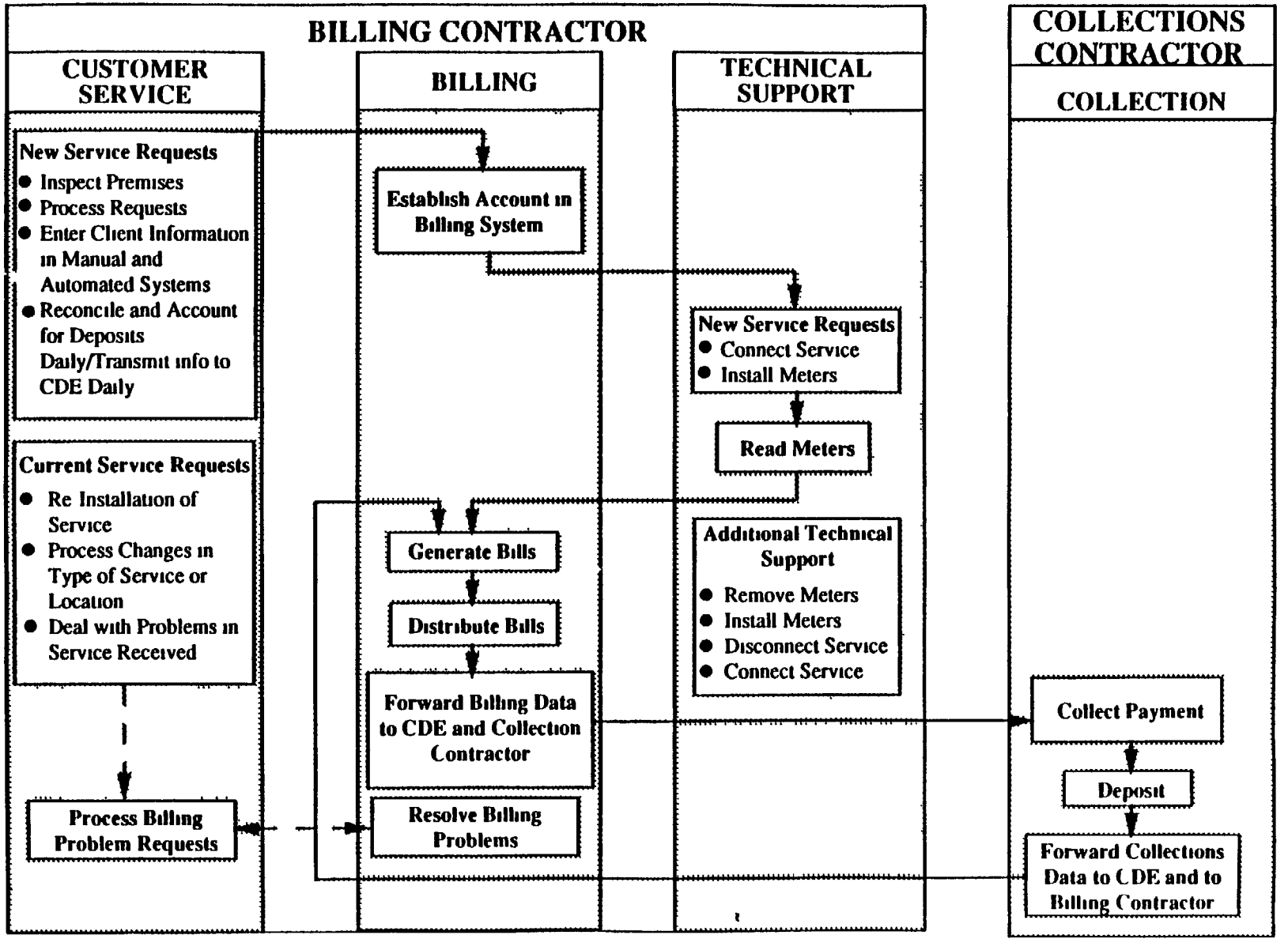

Exhibit II

functions, billing, and collection necessarily result in checks and balances between the contractors responsible for their respective functional areas

The inherent controls, however, do not alleviate the CDE of strict monitoring procedures over Contractors Given the vast range of responsibility assigned to the Billing Contractor in this scenario, it would not be impossible for this contractor to develop its own, unreported client-base Therefore, we recommend that the CDE strictly monitor and estimate the amount of electricity emitted and billed to the region as a measure of performance as reported by the Billing Contractor

We also recommend that the CDE not contract out the collection functions However, if the CDE remains intent on also contracting out this function, we suggest contracting with banks to perform such services In the United States, banks are widely used to perform this "lockbox" function In the latter instance, the Collection Contractor will report collection data to both CDE and to the Billing Contractor for proper monitoring

Additionally, we are suggesting that any contract be carried out for an initial period of three (3) years with three option years, to be exercised by the CDE

Based on the issues discussed above, we drafted the following two SOWs

- Billing and Related Functions (Customer Service and Technical Support) in Appendix A
- Collection Function in Appendix B

Action Plan for Privatizing CDE (Task C)

For CDE to accomplish rehabilitation and eventual privatization, it needs to embark on a three-dimensional approach designed to identify significant legal/regulatory, financial, and operational issues which require resolution As Exhibit III demonstrates, the three dimensions are inter-dependent, the privatization of CDE depends on the success of each of these three areas Furthermore, the overall objective of improving efficient generation, transmission, and distribution of energy within the Dominican Republic may also be achieved through this three-dimensional process Exhibit IV demonstrates the relationships among specific issues of the three areas Exhibit V demonstrates the estimated timing of resolution of specific issues

The report presents a detailed action plan for privatizing CDE After addressing the legal and regulatory, operational, and financial aspects CDE will become attractive to equity investors on politically acceptable terms Again, CDE's viability and self-sustainability is the challenge Also included is a discussion of the models and issues related to independent power projects (IPPs) The provision of new power generating capacity through IPPs is an approach commonly used throughout the developing world

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CORPORACION DOMINICANA DE ELECTRICIDAD

APPROACH TO PRIVATIZING CDE

IMPROVING ENERGY GENERATION, TRANSMISSION, AND DISTRIBUTION THROUGHOUT THE DOMINICAN REPUBLIC

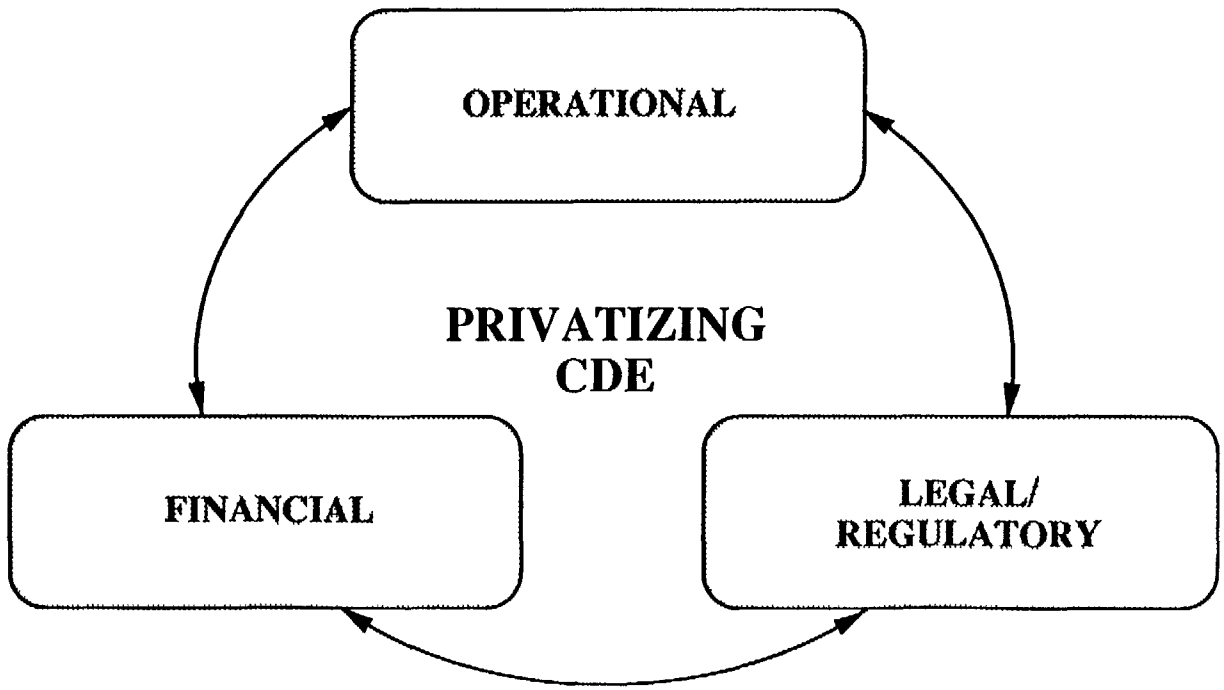

Exhibit III

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Three - Dimensional Action Plan

(1) Legal/Regulatory	(2) Financial	(3) Operational
a. Render Regulatory Framework Operational	a Revalue Assets and Restructure Capital	a Institutionalize Commercial Philosophy
b Determine Desired Industry Structure	b. Improve CDE Financial Condition	b Streamline CDE Operations
c. Determine Rate-making	c. Value CDE and Sell CDE Equity	c. Examine Alternatives: Lease and/or Contract-out
d. Re-incorporate CDE		

Exhibit IV

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Time Line of Action Plan

ACTION	YEAR 1	YEAR 2	YEAR 3
1 LEGAL/REGULATORY			
a Render Regulatory Framework Operational	■		
b Determine Desired Industry Structure		■	
c Determine Rate-making Methodology		■	
d Re-incorporate CDE		■	
2 FINANCIAL			
a Revalue Assets and Restructure Capital	■		
b Improve CDE Financial Condition	■	■	■
c Value and sell CDE Equity			■
3 OPERATIONAL			
a Institutionalize Commercial Philosophy	■		
b Streamline Operation	■	■	■
c Examine Alternatives Lease and/or Contract-out		■	■

PRIVATIZATION OF CORPORACION DOMINICANA DE ELECTRICIDAD (CDE)

Organizational & Operational Improvement Project

I INTRODUCTION

A Background

As the sole entity responsible for the generation, transmission, and distribution of public electricity service in the Dominican Republic, the efficiency of the Corporacion Dominicana de Electricidad (CDE) is a critical factor in the socio-economic development of the country The considerable technical and non-technical losses of electric power the CDE is currently experiencing, along with the lack of maintenance and rehabilitation of plants and lines, has severely dampened the pace of development in the Dominican Republic The CDE recognizes that it must turn to the private sector, and its productivity-oriented practices and greater sources of capital, in order to improve its operational efficiency and financial viability

Recent developments have enhanced the prospects for involving the private sector in activities which have traditionally been the province of CDE These developments are

- The Country's President's interest in solving one of the Dominican Republic's largest impediments to its development
- The Inter-American Development Bank and the World Bank have loaned the country significant amounts to rehabilitate portions the CDE network and operations
- The passage of legislation in 1990 to authorize both the establishment of an institutional framework for regulation and incentives to investors in the industry
- Interest on the part of both local and foreign investors in participating in the country's electricity system

Despite the progress achieved to date, significant issues remain to be addressed before privatization may be accomplished, including

- The regulatory machinery in place now needs to begin functioning
- The financial performance of the CDE, though reportedly improving, remains in a difficult position The company has a net operating loss, even before

interest on long-term debt In addition, the company is in default to secured creditors, which may concern lenders about the power to liquidate the entity

- Less than half of the nominal generating capacity is actually operational, much of its production is unaccounted for beyond any industry norm and the transmission and distribution system is in need of rehabilitation Given the capacity shortage and unreliability of the system there are frequent power outages As a result the public perception of the utility is poor

B Objectives of Project

USAID/Santo Domingo contracted with Price Waterhouse to provide technical assistance to the Corporacion Dominicana de Electricidad (CDE) to assess the CDE's organization and operations and recommend steps to properly prepare the CDE for contracting-out CDE functions to the private sector in the near-term and for privatization in the long-term The work performed under this project consisted of the following three tasks

TASK A Review and preparation of the statement of work for contracting-out Customer Billing & Revenue Collection of the CDE

To review and assist CDE in contracting with private companies to manage a number of its commercial functions In this task, we assessed the feasibility of contracting-out CDE's distribution, billing, and collection functions, reviewed the procedures and controls used, and developed statements of work for inclusion in a bid document

TASK B Identification of other potential, non-primary functions for Contracting-Out

In Task B we identified and assessed the feasibility of contracting-out additional functions to improve efficiency and reduce costs Functions considered were those marginally related to electric power generation, distribution and transmission As part of this task, we developed guidelines for the CDE to follow for producing statements of work for functions eventually selected to be contracted out

TASK C Action Plan and Options for Privatizing CDE

In Task C we assessed the feasibility of privatizing the CDE and identified the internal and external factors that would affect privatization This Task resulted in the preparation of an action plan and discussions concerning options available for privatizing CDE including models and issues of the independent power process

C Organization of Report

To facilitate access to its main points, this report has been organized in the following manner

The Executive Summary briefly discusses our principle findings and recommendations for each of the three components of the project for the CDE to improve its operational efficiency and financial viability

Section I describes the background and the objectives of the project as defined by our contract scope of work

Section II addresses Tasks A and B (i e contracting-out) in detail Specifically, Section II A discusses the advantages and disadvantages of contracting-out, Section II B discusses the contracting-out of CDE commercial functions and related issues, and Section II C discusses contracting-out of other CDE functions

Section III addresses the objectives and issues raised in Task C of our contract Section III A describes the appropriate approach to privatizing the CDE, Section III B discusses the specific steps which we recommend the CDE accomplish to properly set the stage for its privatization Additionally, we describe the realistic options for privatization available to the CDE Section III C addresses models and issues related to Independent Power Project (IPPs)

The Appendices contain the following information

A Statement of Work -- Billing and Related Functions (English)
B Statement of Work -- Collections (English)

II FUNCTIONS IDENTIFIED FOR CONTRACTING-OUT

The CDE has determined that the best way to counter the electric energy problem of the Dominican Republic is to involve the private sector in its operations One of the means identified to support this strategy is the contracting-out of primary commercial functions as well as support functions which are not directly connected with the generation or transmission of electricity This section describes the advantages and disadvantages of contracting-out, the specific issues related to the commercial functions identified as candidates for contracting-out, and the issues related to the contracting-out of support activities

A Advantages and Disadvantages

In identifying functions for contracting-out, the CDE should mind the advantages, disadvantages, and the related criteria for selection which is described below

1 Advantages of Contracting-out

Contracting-out can result in five major advantages to the CDE

First, a competitive contract letting process encourages potential contractors to offer their lowest possible price to perform a function

The second advantage, which directly results from the competitive process, is that tasks are performed at a fixed price to governments In order to maximize its profit a contractor will try to operate more efficiently and effectively by eliminating the unnecessary operational activities If the function performed by the contractor is a revenue generating or collecting activity, this increased efficiency can result in increased income to the CDE Elimination of unnecessary procedures frequently makes activities easier to perform

Third, contracting-out of activities can relieve the CDE of many administrative and managerial tasks and allows the CDE to focus on its mission The use of a contractor relieves the CDE of the responsibilities of hiring and training employees as well as the oversight of those employees The CDE can thus focus on the operations results rather than its problems Further, if the CDE becomes aware of personnel or management problems with a contractor, the CDE can either have the contractor replace the employee, or replace the contractor

Fourth, contracting-out can relieve the CDE of paying for services it does not use Most operations have varying workloads based on the seasonal nature of work, which may be different at different time of the day, week, or year It is frequently easier for contractors to adjust their work force as is appropriate for the workload Contrary to CDE, the contractor need not maintain the slack personnel resources to handle fluctuations in demand Generally, since the contractors have other similar projects they can easily divert the slack resources to other projects

Fifth, contracting-out can provide the CDE with expertise it might not have been able to obtain If an activity requires personnel with numerous different skill types and levels, it may be easier for the CDE to obtain these varying skills from a contractor This is especially true if the skill is very specialized and is not required full time A common example would be an elevator mechanic Although all buildings with elevators require elevator mechanics to perform routine servicing and maintenance as well as emergency repairs, few organizations hire elevator mechanics on a full time basis

Most of the advantages obtained from contracting-out result from

- A clearly defined scope of work which matches the CDE's needs with established standards
- Re-compete of the activity on a regular basis

2 Disadvantage of Contracting-out

Contracting-out requires administrative oversight by the CDE of the contractor The CDE must monitor the contractor to ensure that it is performance is up to standards Further, the CDE must ensure that adequate controls are maintained over activities that are subject to fraud, waste, and abuse

3 Criteria for Identification

Generally, any function that can be defined can be contracted out But, just the fact that a function can be contracted out does not necessarily mean that it should be As described above, contracting-out should be embarked upon to

- Reduce Costs
- Improve Quality
- Improve Efficiency
- Reduce Administrative Burdens
- Provide Additional Expertise

The determining factor for contracting-out a function is whether the contracting company meets one of the above stated goals For example, if an organization is trying to reduce cost and improve efficiency of an operation, then the organization should be large enough to realize savings The minimum number of full time employed in a functional area should be ten in order to be considered for contracting-out

B Commercial Functions

The CDE is currently experiencing considerable technical and non-technical losses of electric power In an effort to reduce losses and increase CDE's efficiency and cash flow, the CDE has decidedly taken the path of transferring the responsibility of selected commercial aspects of CDE's operations to the private sector

At the time of our visit, the CDE had issued two solicitations for contracting-out of billing and collection functions in two of the five regions of the country and the selection of the winning proposal for the East Zone solicitation was underway

1 CDE Problem Areas

During our fact-finding, CDE management identified several problems related to the commercial functions of CDE Though they were raised in the context of improving the operational and financial efficiency of commercial function, these difficulties reflect organization-wide problems that could impede the CDE's efforts towards achieving viability if the CDE does not address them with priority

The more significant problem areas include the following

- Significant losses resulting from fraudulent users
- Low collection rates
- No preventive maintenance program
- Lack of productivity resulting from inappropriate staffing levels and inadequate compensation plans
- Redundancies, resulting from multiple processes for the same activity throughout the CDE
- Constant changes in strategic direction of CDE resulting from changes in upper-management

Contracting-out of selected commercial functions should address a number of these issues given the private sector's inherent motivation towards long-term efficiencies and profitability Additionally, a thorough CDE-wide review of the organizational structure, operations, and internal controls would help the CDE to

- define proper lines of authority and areas of responsibility
- streamline its operations and reduce redundancies
- determine appropriate levels of resources and staffing profiles
- define performance measures, practices, and goals

Particular functional areas which we believe would immediately benefit from such a review include

- Commercial Functional units currently responsible for Billing, Collection, Technical Support, and Fraud Detection
- All units responsible for data processing and information systems, especially for Billing and Accounting systems

2 Functions Already Identified by CDE for Contracting-out

Because of the sensitive nature of commercial functions involving billing responsibilities, these functions are traditionally maintained by the utility companies We believe that the billing and collection functions should be one of the last functions to be contracted out prior to the full privatization of the CDE However, the proper controls and discipline, contracting-out of discrete commercial functions could result in improved efficiencies

Detail tasks involved in billing and collection consists of

- Billing
  - Determination of electrical consumption
  - Generation of bill
  - Update of account information
  - Delivery of bill
  - Coordinate reports with CDE and other contractors, as appropriate
  - Resolve billing problems
- Collection
  - Collect all revenues
  - Deposit funds received to appropriate CDE accounts
  - Forward collection data to CDE and other contractors

In addition to the billing and collection functions, CDE has also decided to include customer services and technical support in the same package to be contracted out We believe these functions can be contracted out independently from the billing and collection functions The detail tasks involved in customer services and technical support are

- Customer Service
  - Receive and process new service requests and charges
  - Process current client service requests
  - Process billing disputes

- Technical Support of Commercial Activities

  - Meter installation
  - Meter removal
  - Service connection
  - Service disconnection

Our review of the solicitations and selected proposals submitted revealed that the CDE was planning to contract all the above functions to one contractor within each geographical region We believe that this action would raise several issues of potential exposure of CDE to unsatisfactory contractual commitments

In our view, unless the CDE commits additional resources to develop a very sophisticated monitoring system, the current resources and internal controls are inadequate for ensuring that one contractor performs all the identified functions within prescribed standards and reports all of the related financial activity to CDE Instead, we believe that better controls and reporting incentives would result from merely separating the billing, customer service, and technical support services from the collection function and contracting them to two separate contractors

Exhibit I, Contracting-out of Commercial Functions, clearly depicts the division of these commercial functions and their related responsibilities between the contractors and the necessary relationships among the CDE and the contractors As Exhibit II, Workflow of Commercial Functions, demonstrates, this segregation of duties brings with it inherent self-monitoring controls The interfaces among customer service, technical functions, billing, and necessarily result in checks and balances between the contractors responsible for their respective functional areas

If the CDE is to contract-out commercial functions, we therefore recommend that the Billing Contractor would be responsible for all functions identified except for collections Within this responsibility, the Contractor must design and develop financial systems which meet CDE functional and hardware compatibility requirements Additionally, the Contractor must forward updated billing information to the Collection Contractor and complete financial information to CDE

Given the vast range of responsibility assigned to the Billing Contractor in this scenario, it would not be impossible for this contractor to develop its own, unreported client-base We recommend that the CDE strictly monitor and estimate the amount of electricity emitted and billed to the region as a measure of performance as reported by the Billing Contractor

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CORPORACION DOMINICANA DE ELECTRICIDAD
CONTRACTING-OUT OF COMMERCIAL FUNCTIONS

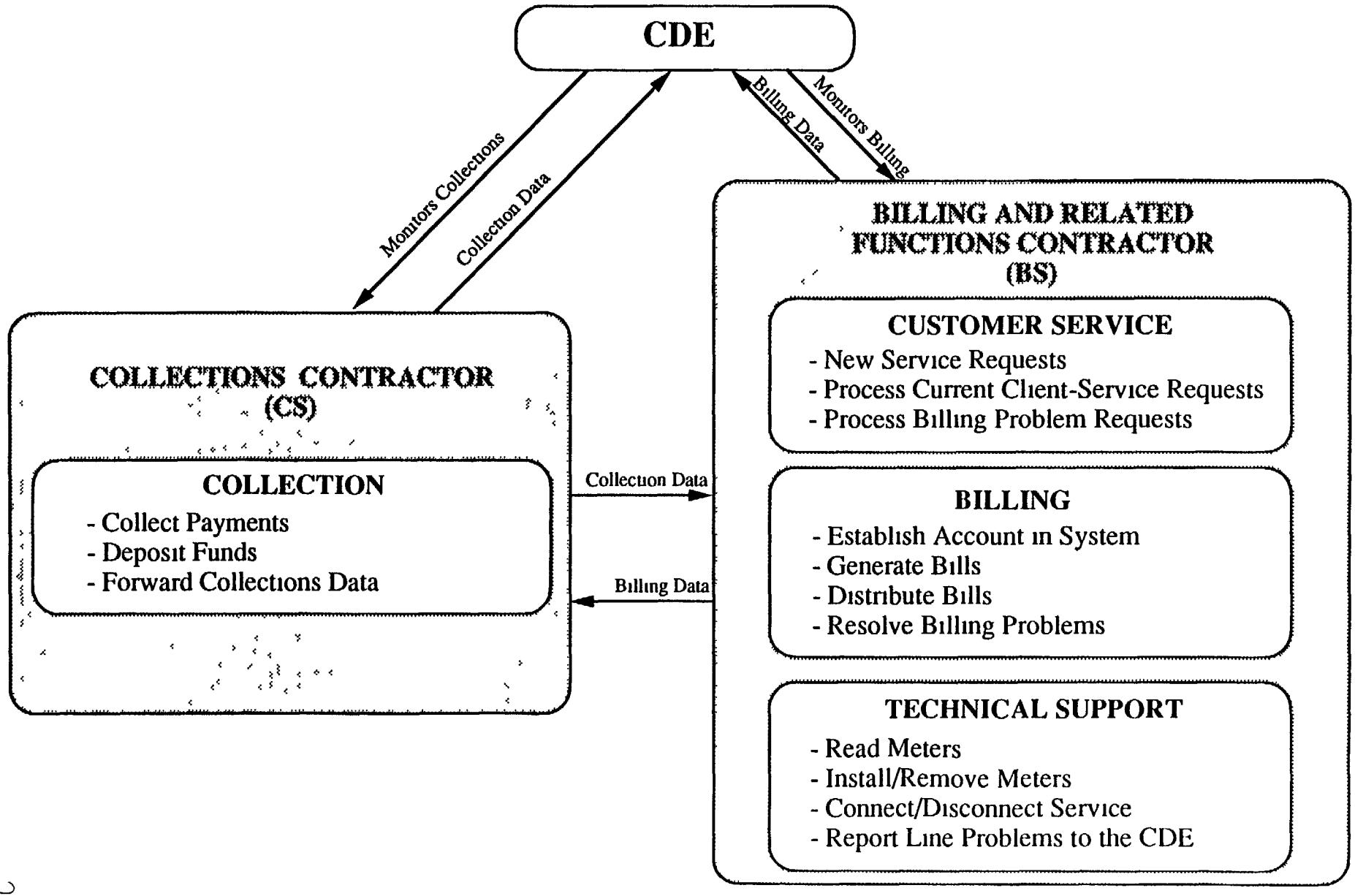

Exhibit I

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CORPORACION DOMINICANA DE ELECTRICIDAD
WORK FLOW OF COMMERCIAL FUNCTIONS

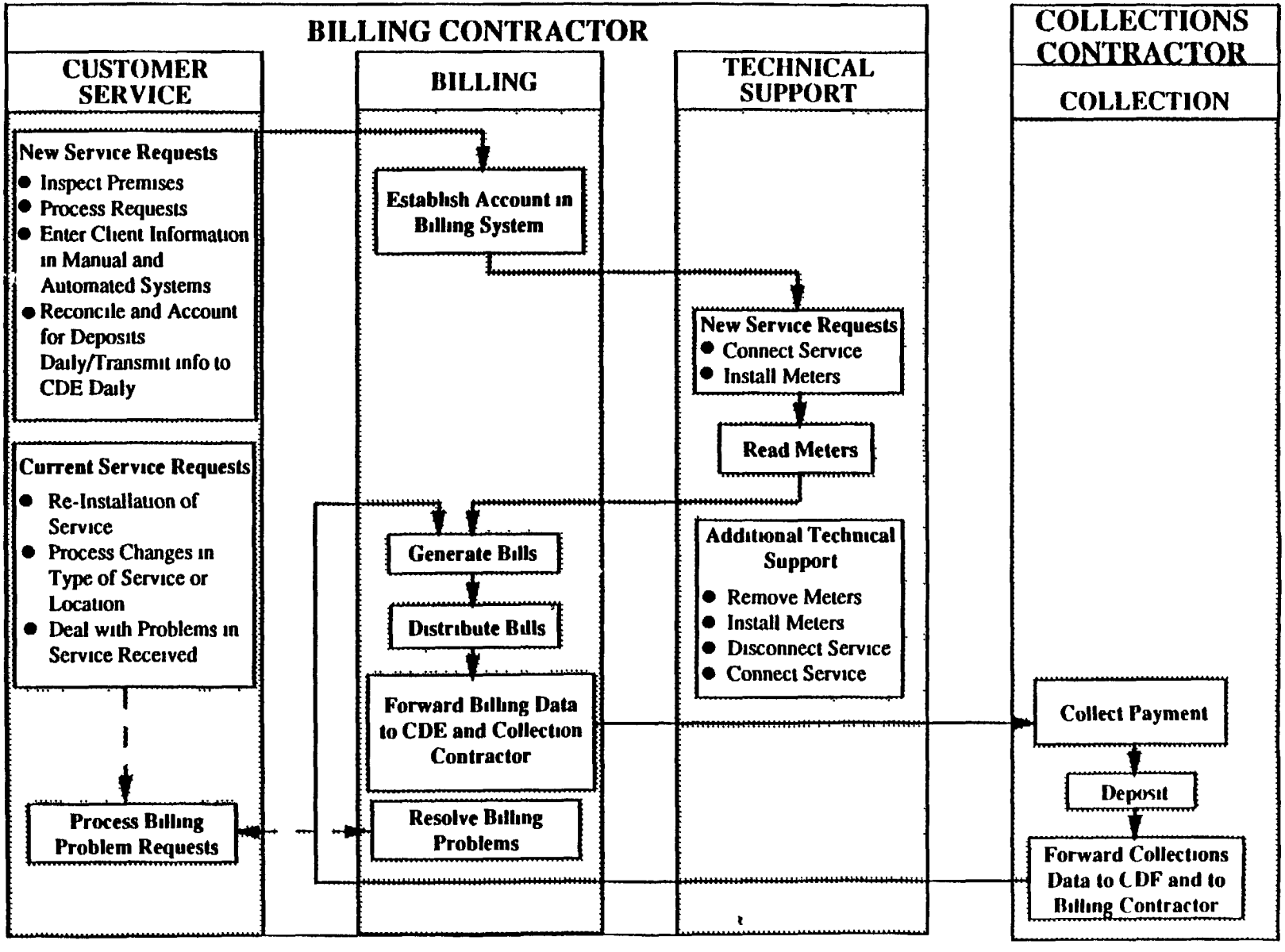

Exhibit II

We also suggest that the CDE perform the collection function However, if the CDE remains intent on also contracting this function, we suggest contracting with banks to perform such services In the United States, banks are widely used to perform this "lockbox" function In the latter instance, the Collection Contractor will report collection data to both CDE and to the Billing Contractor Additionally, we are suggesting that the contracts be for an initial period of three (3) years, with three option years

3 Statements of Work (SOWs) for Functions Identified

Based on the issues discussed above, we have drafted the following two SOWs

- Billing and Related Functions in Appendix A
- Collection Function in Appendix B

The SOWs represent generic terms of reference to be included in future CDE solicitations for contracting-out of selected commercial functions Because it is a prototype SOW, the CDE may have to modify it to fit the requirements of specific solicitations to be executed

Additionally, as a SOW, the document describes functions and activities which we believe should be required of the contractor However, the SOW does not include legal and contractual requirements more appropriately described within the contract itself and drafted by CDE's legal representatives

C Other Functions which can/should be Contracted-out

The management and employees of the CDE perform activities that are marginally related to electric power generation, transmission, and distribution and which are candidates for performance by an outside contractor These activities include, but are not limited to, administrative and technical functions such as providing security for generating plants, maintenance of the plants, transmission and distribution lines, maintaining the CDE grounds and property, and purchasing the necessary supplies and equipment

This section describes some of the functions that have been identified as potential candidates for contracting-out, a relative timetable for contracting-out, and guidelines for developing statements of work for functions the CDE selects to pursue contracting agreements

1 Functions Identified

The functions identified below as candidates for contracting-out are those which have been successfully performed by contractors for the United States Government and other governments throughout the world

a Maintenance

Maintenance of all aspects of the operations of an electric power utility is the key factor in the generation, transmission and distribution of electricity to its clients

i Maintenance of Generation Plants

It is common in the electric power industry to contract out the maintenance of generation plants The responsibility for the maintenance of the generation plants in the CDE is currently held by the management of each individual plant The proper maintenance of the generation plants is one of the crucial factors behind the constant and sufficient supply of electricity to the nation If a plant is well maintained, then it is less likely to fail during its operations This is one of the areas currently in most need of improvement in the operations of the CDE

ii Maintenance of Substations

The maintenance of substations, as in generation plants, is one of the crucial areas behind the constant and sufficient supply of electricity This is an area commonly contracted out in the electric power industry

iii Maintenance of Transmission and Distribution Lines

The maintenance of transmission and distribution lines has been centralized in name, but decentralized in function Due to the vast geographic scope of the country, and the urgency of the repairs, the maintenance crew working out of headquarters (in Santo Domingo) manages only those lines in the neighboring areas of the National District Technicians in each of the individual zones oversee the operations in their specific zones The contracting-out of these functions would allow the CDE to decentralize, both in name and function, these activities, and therefore to streamline and expedite operations in all areas of the country

b Repair Functions

Currently, the repair of both transformers and meters is handled by headquarters, in Santo Domingo This implies that all transformers and meters must be transported to Santo Domingo in order to be repaired This is both cumbersome and inefficient, and in the care of the transformers it is hazardous to their maintenance A transformer is a critical and expensive part of the transmission of electricity The contracting-out of these functions would concentrate responsibility and make operations more efficient and safe If this function is contracted out, the contractor can be asked to provide mobile repairing facilities which would be more efficient and effective

c Transportation

Transportation services include administration services, chauffeur services, and auto repair and maintenance All of these areas are commonly contracted out by major electric utility plans and distribution centers, large manufacturers, and other large companies, both private and state owned, and would, in this instance, signify a major cost savings for the CDE

d Operation of Computer Facilities

More and more throughout the world, governments and companies are turning to specialized firms to operate their computer facilities This allows a company to concentrate on systems outputs of results instead of problems

e General Services

There are a number of services that are performed throughout the CDE

i Cleaning Services

Cleaning services are provided by different building managers for the over 160 facilities or offices operated by the CDE In major cities throughout the country, there are contractors available to perform these cleaning services Cleaning contractors frequently perform these

functions in the evenings after business hours Evening cleaning hours reduce the likelihood that cleaning will interrupt operating activities Further, evening cleaning contractors frequently hire personnel desiring a second source of income and therefore are required to pay fewer benefits

ii Repair and Renovation of Facilities

Currently, the CDE performs renovation and repair functions internally The functions include

- Electrical repairs
- Building repairs
- Painting
- Plumbing
- Furniture repairs

The CDE can contract with general contractors in each zone to provide these services throughout the country

e Supply Services--Warehouse Operations

It is routine to contract out supply services, including warehouse operations, in many large companies These services are usually contracted to service/management firms, who, in this case, would be done by zone This would result in greater controls for operations, and improved efficiency in the areas of procurement, administration, storage and distribution of supplies

2 Timetable for Contracting-out

The CDE should establish a timetable for evaluating functions identified for contracting-out The timetable should be based upon those functions most likely to reduce costs In general these will be the functions with the most employees The timetable should include time to write a statement of work for the function, publish notice of the contract, receive and evaluate proposals and select the best proposal The CDE's capabilities in developing statements of work and performing the other functions will determine the actual timetable for implementation The following section presents guidelines for developing proper statements of work for the functions CDE selects for contracting-out

The following list prioritizes functions for contracting-out

- Transportation Services
- Maintenance of Transmission and Distribution Lines
- Warehousing Facilities

- Computer Facilities
- General Services
- Maintenance of Substations
- Maintenance of Plants
- Repair of Meters
- Repair of Transformers

3 Guidelines for Developing Performance Work Statements (PWS)

Developing Performance Work Statements requires a systematic identification and cataloging of functions and duties to be performed by a contractor A three step methodology should be used

- Identify Functions
- Catalog Functions
- Write Performance Work Statement

First, appropriate functions for contracting out need to be identified We have discussed those in prior sections For a particular performance work statement, it is important that functions that allow a significant opportunity for fraud, abuse, or waste should not be bundled together For example, we have recommended that a contractor not be allowed to perform both the collection and billing functions Without sophisticated tracking and monitoring systems, it is too easy for one contractor to defraud the CDE if it performs both these activities

Second, one catalogues the functions that are to be performed by the contractor There have been many examples of poorly written performance work statements that excluded a function and then required costly contract modifications In cataloging the functions, only the functional inputs and the required processing outputs are identified One should avoid dictating the exact procedures that the contractor should follow Dictating procedures prevents the contractor from developing innovated processes that reduce costs

The concept of not dictating procedures should not be confused with the statement of quality, timeliness, and workload standards These standards ensures that the contractor is meeting the CDE needs For example, it is important to identify that the contract accurately bill for electric usage on a monthly basis and that it disconnects nonpaying customers within stated time standards These requirements ensure that the CDE is receiving appropriate cash flows for payment of its obligations and that it receives payment for power it provides

Finally, the performance work statement is written The performance work statement should described the cataloged functions and the quality, timeliness, and workload standards by

which contractor performance will be measured Generally, the Performance Work Statement is organized into six sections

- Introduction--describing the organization and the general operating environment
- Definitions--describing key terms used in the document
- Contractor Requirements--describing the specific duties and functions that the contractor will provide
- Facilities and Equipment Provided By the CDE--describing what the CDE will be providing to the contractor
- Facilities, Equipment, and Personnel Provided by the Contractor--describing specific facilities, equipment, and personnel the contractor needs to provide
- Basis of Contractor Overall Performance--describes how the contractors performance will be measured

In defining contractor requirements three factors should be defined

- Internal control systems that the contractor will implement to ensure accurate high quality performance
- Reporting requirements by the contractor to the CDE
- Interface requirement with the CDE, its systems, and other contractors

In conclusion, the process of writing a performance work statement requires a systematic approach that ensures inputs and outputs of required functions are completely identified

III ACTION PLAN FOR PRIVATIZING CDE

In this section, we address the issues raised in Task C of our contract Section III A describes the appropriate approach to privatizing the CDE Section III B discusses the specific steps which we recommend the CDE accomplish to properly set the stage for its privatization and presents realistic options for privatization available to CDE Section III C presents the Independent Power Project (IPP) as an alternative method for involving the private sector in new generation of electricity, and discusses the IPP models and related issues

A GENERAL APPROACH

1 Current Status

In its present state, the equity investment necessary for privatization could not be attracted to CDE on terms which would be politically acceptable Additionally, in view of the adverse opinion and qualifications in the latest (1989) audit report and the debt defaults, it is doubtful that any investment can presently be attracted to the entity on any terms, except where international funding agencies might be prepared to assist with loans under Government guarantees

Recognizing the above, the CDE and the Government of the Dominican Republic (GODR) have formulated a privatization strategy designed to encourage the private sector to sell power to CDE and to contract-out discrete areas of CDE inefficiencies By passing the Congressional Law 14-90 (Ley de Incentivo al Desarrollo Electrico Nacional) in 1990 the GODR has shown its support of what appears to be a reasonable beginning towards privatizing traditional CDE responsibilities

2 Privatization Approach

For the CDE to accomplish privatization, the CDE needs to embark on a three-dimensional approach The three dimensional approach is designed to identify significant legal/regulatory, financial, and operational issues which require resolution in order for the CDE to accomplish privatization

As Exhibit III demonstrates, the three dimensions are inter-dependent, the privatization of CDE depends on the success of each of these three areas Furthermore, the overall objective of improving efficient generation, transmission, and distribution of energy within the Dominican Republic may also be achieved through this three-dimensional process Exhibit IV demonstrates the relationships among specific issues of the three areas Exhibit V reflects the time-line required for this approach

a Legal/Regulatory

The legal and regulatory aspects address issues concerning the regulatory framework and environment, the desired industry structure, rate determination, and CDE incorporation laws Without the legal/regulatory structure properly in place, it will be difficult to attract the private sector to participate within the electricity sector of the Country

b Financial

The financial aspects address issues related to revaluing CDE assets, re-structuring capital base, improving financial condition of CDE, financing concerns of private investors, and valuation of CDE for the eventual sales of CDE at a politically acceptable price

The CDE's ability to pay must be addressed as a priority The fundamental need for investors involved with the provision of electricity services which will rely on a utility for payment, is the sustained financial stability and viability of the entity Private investors will wish to deal with a credit-worthy customer, as will suppliers of other services Indeed, entity viability has been explicitly expressed by some potential investors to be the central issue

The CDE needs to focus significant efforts on improving its financial position so that it can eventually offer a politically acceptable sales price A politically acceptable price implies one which is tolerably close to the net book value of the company Net book value is the only figure which the public at large will regard as fair, regardless of whether or not the earnings justify that value However, the price that investors will consider in any business will not be more than is justified by the earnings of the business, in order to ensure an adequate return

Based on the December 1990 internal financial statements of CDE, the net book value of CDE (on the basis of replacement values) was RD$6 3 billion These figures would require a hard currency return of at least RD$1 billion The loss before state subsidies and unrealized devaluation losses was RD$590 million Profits would, therefore, have to be higher by RD$1 59 billion (120% of gross revenues) in order for the going-concern value of CDE to equate its net book value As a result, the CDE needs to aggressively seek the requires increases in revenues and reductions in losses

USAID/SANTO DOMINGO
CORPORACION DOMINICANA DE ELECTRICIDAD

APPROACH TO PRIVATIZING CDE

IMPROVING ENERGY GENERATION, TRANSMISSION, AND DISTRIBUTION THROUGHOUT THE DOMINICAN REPUBLIC

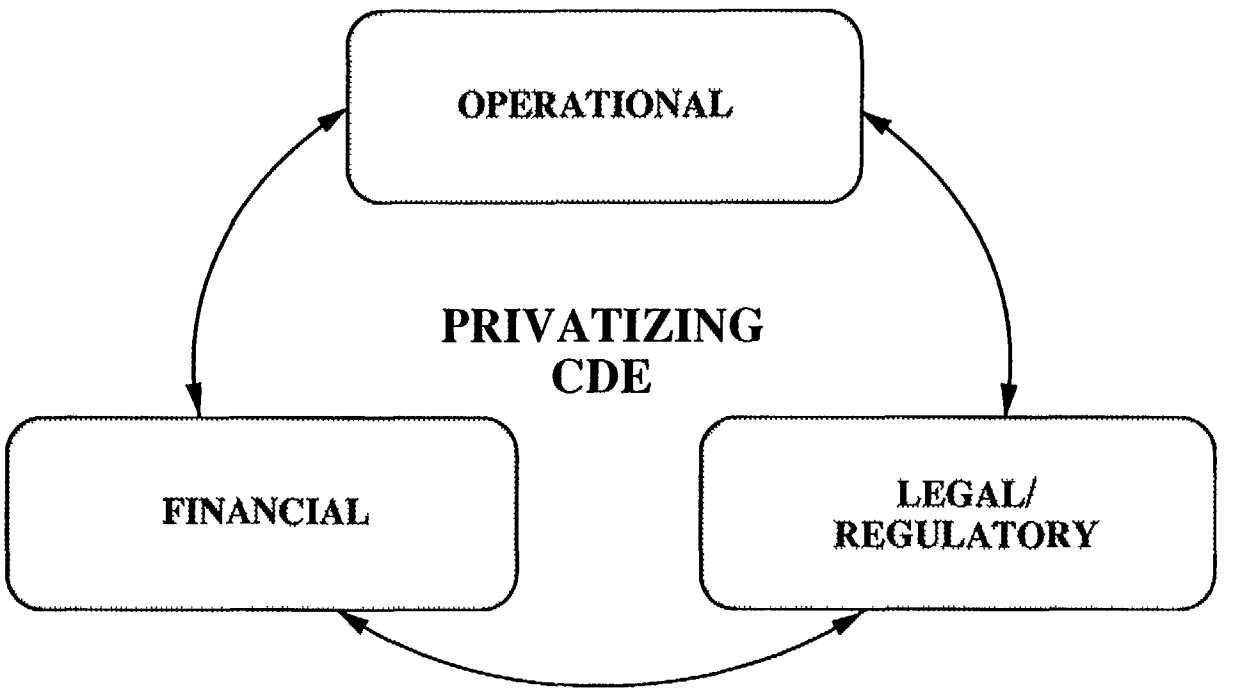

Exhibit III

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Three - Dimensional Action Plan

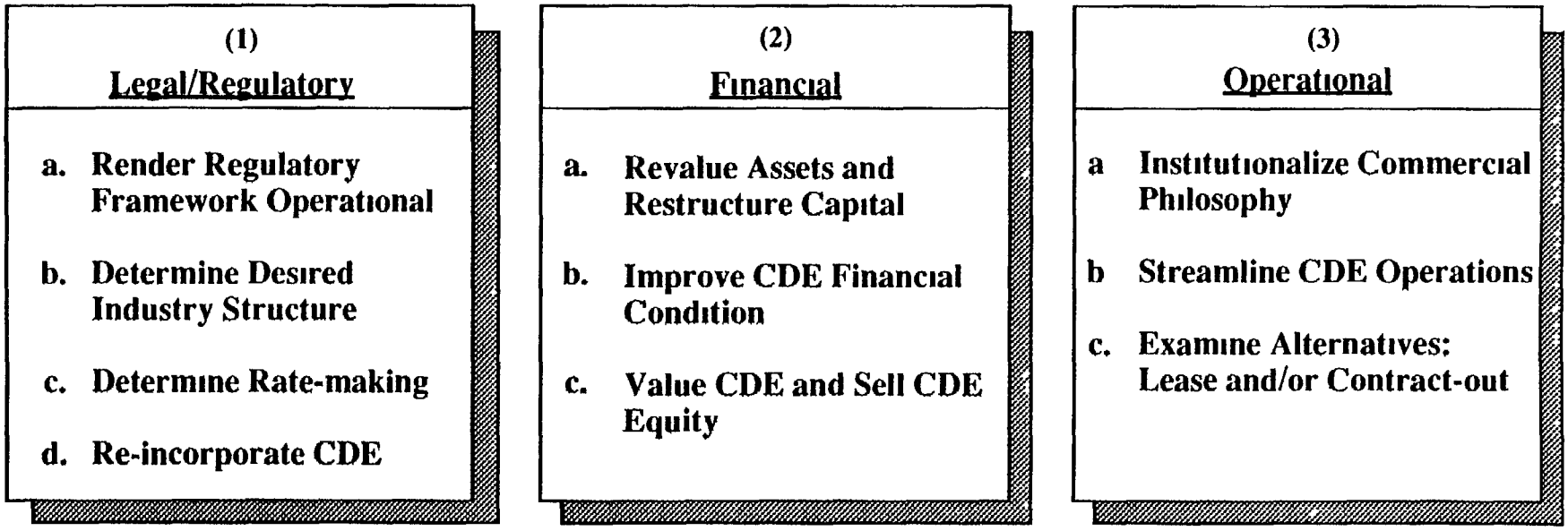


Exhibit IV

USAID/SANTO DOMINGO

CORPORACTION DOMINICANA DE ELECTRICIDAD

Time Line of Action Plan

ACTION	YEAR 1	YEAR 2	YEAR 3
1 LEGAL/REGULATORY			
a Render Regulatory Framework Operational	■		
b Determine Desired Industry Structure		■	
c Determine Rate-making Methodology		■	
d Re-incorporate CDE		■	
2 FINANCIAL			
a Revalue Assets and Restructure Capital	■		
b Improve CDE Financial Condition	■	■	■
c Value and sell CDE Equity			■
3 OPERATIONAL			
a Institutionalize Commercial Philosophy	■		
b Streamline Operation	■	■	■
c Examine Alternatives Lease and/or Contract-out		■	■

c Operational

The operational aspects address issues concerning improvement of operational efficiency necessary to generate and support the CDE's financial viability The following problems reflect organization-wide problems that could impede the organization's efforts towards self-sufficiency and profitability if the CDE does not address also them with priority

- Significant losses resulting from fraudulent users
- Low collection rates
- No preventive maintenance program
- Lack of productivity resulting from inappropriate staffing levels and inadequate compensation plans
- Redundancies, resulting from multiple processes for the same activity throughout the CDE
- Constant changes in strategic direction of CDE resulting from changes in upper-management

Issues covered include the CDE's institutionalization of commercial philosophies, improving generation, transmission, and distribution operations, and alternatives for involving the private sector in CDE operations

d Detail action plan

The action plan presented in Section III B for privatizing the CDE outlines specific steps under each of the three discussed above After addressing the legal and regulatory, operational, and financial aspects discussed in Section III B , the CDE will become attractive to equity investors on politically acceptable terms Again, CDE's viability and self-sustainability is the challenge

B SPECIFIC ACTION PLAN AND OPTIONS

Our privatization road-map consists of a three dimensional action plan to address the legal/regulatory, financial, and operational aspects of privatizing the CDE These three dimensions are inter-related and must all be addressed by the CDE for it to be effectively privatized For example, both the legal/regulatory environment of the power industry in the Dominican Republic and the operation efficiency of the CDE will effect the financial value of the CDE for purposes of privatization To ensure that privatization occurs within a reasonable time, three to five years, all three dimensions must be confronted simultaneously This section of the report outlines detail steps for each of these three areas

1 Legal and Regulatory Aspects

To privatize the CDE, the Country must establish a legal and regulatory environment that allows a private owner of the CDE to earn a reasonable rate of return on his investment and provides customers with the assurance that rates charged for electricity are fair Four steps need to be taken to provide an appropriate legal/regulatory environment

- Render a Credible Regulatory Framework Operational
- Determine Desired Industry Structure
- Determine Appropriate Rate Making Methodology
- Re-Incorporate CDE Under General Legislation

a Render a Credible Regulatory Framework Operational

Although on a country-wide basis CDE may no longer have a monopoly, as a result of Law 14-90 which authorizes other enterprises to sell electricity to end-users, as a practical matter, the CDE's virtual monopoly in distribution will continue to exist In terms of generation activity, the small size of the market, the economic size of generating units, and the risks to be taken by investors, there is little possibility for a truly competitive environment in generation in the near term Therefore, regulation will be required and investors will wish the structure and institutions involved to operate by predefined fair rules, administered independently of politicians in a technically competent manner

1) Evaluation Criteria

The evaluation criteria applied by investors and consumers are as follows

- Does the institutional structure or rate setting mechanism promote financial stability or viability? Because one of the primary goals in the privatization process is to develop an environment conducive to private investment, the extent to which the regulatory structure and mechanisms foster this environment should be of prime concern to both the GODR and CDE It is imperative that investors perceive that they will be able to earn a fair rate of return if they manage their operations properly

- Will the regulatory structure protect consumer interests in a privatized environment? While ensuring financial viability is important, it will not be politically feasible to develop a regulatory mechanism which ignores consumer interests The regulatory framework must guard against both excessive price levels (and associated excessive profit levels) as well as cross-subsidies in the tariff that would harm specific customer groups or discourage competition through Independent Power Production in the generation market

- Does the regulatory framework provide sufficient incentives for efficient operations and management? Different forms of regulation provide varying degrees of incentives for efficiency The optimal framework encourages efficient operations while protecting consumer interests and promoting financial viability

- Will the rate-making process be relatively free from political intervention? While the Government must have a voice in the rate-making process, as well as economic efficiency considerations, the process should be insulated from excessive political influence Excessive political influence can be characterized by the creation of cross-subsidies to favor particular interest groups or similar intervention that might not be consistent with commercial and economic criteria Thus, we make the distinction between governmental influence, which can be considered positive, and political influence, which is considered negative

- Will the regulatory framework provide "expert" regulation? It is important that officials responsible for developing rates for CDE (and the other companies) be familiar with operations and financial conditions in the electricity industry It is difficult to formulate sound regulatory policies and tariffs if this expertise is absent in the regulatory body

II Recent Regulatory Environment

Recently, the Dominican Republic enacted in a new regulatory structure This section analyzes that environment and assesses its effect on privatization

Article 1 of Law 14-90 states "The Directorate for the Development and regulation of the Electrical Energy Industry shall be the coordinating and regulating organism for the electrical energy industry in the country Among its functions shall be the implementation of the electric rate and the supervision of everything related to the companies and the Dominican Electric Corporation " (Underlines added) In Article 28 the power for Regulations to be made is conferred on the Executive power and Article 29 indicates that this law supersedes any to the contrary in any other law Clearly, therefore, the law adequately empowers the Directorate

Under Article 14, the Directorate will be governed by a Board of Directors composed of

- The Minister of Industry and Commerce (Chairman)
- The Minister of Finance
- The Technical Minister of the Presidency
- The Governor of the Central Bank
- Representatives of four private sector associations

Article 15 states that the Executive Director will be designated by the President

The funding for the Directorate, per Article 26, will come from the annual budget of the Ministry of Industry and Commerce and from "a monthly contribution that must be made" by the companies (including CDE) in proportion to their installed generating capacities Under Article 27, the Directorate may also accept funding from other sources (but it is not clear whether this includes the power to borrow)

Despite the clarity of the Directorate's authority, the Directorate has been starved of funding for two reasons First, because it was created between budgets, no government funds were provided Second, the amount of the monthly contribution by CDE (being the only company presently covered by the law) has not been established in the law or by regulation Nevertheless, housekeeping expenses have been paid for by a potential investor in the industry and USAID has provided technical assistance in the drafting of the first set of Regulations (Reglamento Procedimental del Directorio de Desarrollo Reglamentacion de la Industria de la Energia Electrica (DDRIE)) The Directors have been nominated by the various Ministries and private sector organizations and they have held regular meetings

CDE's attitude toward the Directorate is that, although the underlying concept is acceptable in principle, CDE should be represented on the Board of Directors because the reality is that CDE has been the only electrical utility to date CDE is accustomed to setting its own rates, for example (in practice in consultation with the politicians), and is not minded to relinquish this power especially as the private sector groups really represent the interests of a class of consumers

The composition of the Board is not ideal because it consists of politicians and a certain class of consumers Investors will perceive that political pressures will inhibit rational and timely rate-making and that there is the potential for companies under the law to become political footballs from time to time The presence of consumer groups provides the regulated companies with a legitimate reason to demand representation Additionally, because residential consumers have no representation, it will be perceived that rates are skewed against the residential and small commercial consumer classes in favor of the industrial and commercial sector

Another drawback to the institutional arrangement is that "expert" regulation will not be perceived by investors to be present even though the Directorate may hire highly competent and professional staff, because the decisions will be made by politicians and one special interest group

Our conclusion is that the regulatory structure will have credibility so far as its authority under the law is concerned, but by other tests it will lack credibility We recommend that the law be modified so that an effective Board structure is implemented which protects decision making from political influences, ensures technical competence, and provides for fair representation of all interested parties

b Determine Desired Industry Structure

This section discusses the need for a defined industry structure, the major approaches to privatization of the CDE, and the option of independent power producers It is our understanding that the CDE is considering dividing itself into five distribution companies (based upon current commercial regions) and a generation and transmission company This is just one of many approaches that could be used in privatizing the CDE In general, there are three major approaches for privatizing the CDE, and many permeations of these approaches

- Privatize the CDE as a Single Entity--This approach would keep the CDE as one entity and allow one company to have control of the majority of the Country's power generation, transmission, and distribution

- Divide the CDE into a Number of Different Companies--This approach could result in a number of generation, transmission, and distribution companies This approach could result in regional generation and distribution monopolies

- Maintain a Public or Nonprofit Transmission System and Privatize Generation and Distribution Activities--This approach could allow for multiple power producers to supply geographic distribution monopolies

None of these alternatives are clearly superior Privatizing the CDE as a single company would result in a private company having near monopolistic power thereby controlling the power market throughout the Country Dividing the CDE would require a significant effort in determining the value of each "spin-off" company, but overall could encourage competition in the marketplace Maintaining a public transmission network would encourage competition but could keep the government too heavily involved in the power industry

Further, the role of independent power producers (IPPs) should be determined, within the industry structure Two major roles are possible for IPPs

- Requiring IPPs to sell to distribution companies

- Allowing IPPs to sell to distribution companies or directly to consumers

The CDE, DDRIE, and the Government should determine the most appropriate industry structure for the Country This structure should encourage the provision of an adequate supply of inexpensive energy

The industry structure will determine the regulatory environment under which the industry will operate An industry structure that has a single major power producer will require regulations that concentrate on balancing the needs of power company with the customers Alternatively, an industry structure that has different generation, transmission, or distribution companies will need regulations that balance the needs of the different types of companies and the customers

c Determine Appropriate Rate-Making Methodology

Under the draft regulations, rates will be set on a basis which will permit investors to make a fair rate of return This section describes the major components and the relative advantages and disadvantages in the context of privatization of the following options for the rate-making mechanism

- strict rate base / rate of return regulation
- rate of return bench-mark
- price cap formula

Considering the need to select a rate-making formula which requires as little discretionary input as possible, while sill maintaining credibility with consumers and investors, the CDE must chose a rate-making method which best suits the Dominican Republic at this time, given the existing institutional framework

Below we discuss the different characteristics of each of the rate-making methods available to the CDE, and the relative advantages and disadvantages of each in the context of or privatization

i Strict Rate Base / Rate of Return Approach (ROR)

The strict rate base/rate of return (ROR) regulation method, used extensively in the U S electric industry, is based on the identification of the appropriate period for analyzing the utility's costs, determination of the appropriate rate base, identification of allowable expenses and projected revenues, estimation of cost of capital, and calculation of the revenue requirement, among others

The risks to utilities subject to rate of return regulation method arise primarily from the potential for adverse decisions by the utility regulatory commission concerning the plant costs to be included in the rate base U S utility companies do not, on the most part, include the cost of the construction of the plant in the rate base, but they do allow for a phase-in period due to regulators' concerns about sudden increases in the tariff

Critics of rate of return regulation have focused on the potential for regulatory bodies to distort the input costs of the utility A final problem with rate of return regulation is that it may not give adequate incentive for cost minimization and adoption of practices that improve the financial health of the organization As a result, strict ROR regulation, as practiced in the U S , is a very complex form of price control, even though it is generally recognized as an effective method of controlling excessive monopoly prices and profits

ii Rate of Return Bench-mark Approach

Under the rate of return bench-mark approach, the utility is able to increase its rates as long as an agreed upon rate of return bench-mark is not exceeded The principal advantage of this type of approach over strict ROR methodologies is its simplicity Once the method of valuation for the utility's assets is set, there are relatively few of the administrative costs associated with protracted and contentious rate hearings, common under strict ROR regulation A secondary advantage in relation to the privatization process is the financial stability generated under this system Potential investors are virtually guaranteed an adequate rate of return, as prices can be raised to ensure that this return is achieved The disadvantages include the potential incentives for the utility to expand its asset base beyond optimal levels and the lack of incentives to operate efficiently

iii "Price Cap" Regulation

Price cap regulation, also known as "RPI-X+Y" regulation, establishes an initial average price and permits this average to change by the rate of inflation (Retail Price Index, RPI) less a specific amount, X, representing controllable costs, plus an amount, Y, allowing the utility to pass on the increases in specific costs to customers Price adjustments can be made in any direction as long as the average price does not exceed the authorized amount Advantages to this method include its simplicity, avoidance of the time and cost of regulatory hearings, it is not a cost-plus formula, and it promotes efficiency

iv Advantages and Disadvantages of Options with Regard to the Privatization Process in the Dominican Republic

It is important to consider the application of these three mechanisms to regulating CDE after privatization and to evaluate each of the three mechanisms with regard to the criteria for sound regulatory policies We discuss the ability of each mechanism to satisfy these criteria below

- Which regulatory mechanism best promotes financial stability for a privatized CDE? From a potential investor's point of view, a bench-mark ROR approach provides the most favorable financial environment, as the CDE would be able to raise its rates until the agreed-upon ROR target is achieved Price cap formulas would also create a favorable climate for potential investors (particularly if fuel adjustment clauses are included), for profits can be increased if CDE is managed and operated efficiently Strict ROR regulation, with the possibility that certain additions to rate base or operational expenses will be disallowed, create risks to the investor that will decrease the attractiveness of CDE The magnitude of these risks depend on investor's perceptions of the strength and aggressiveness of the regulators to disallow rate increase requests and the extent to which they may be subject to excessive political influence, which may be difficult to judge before privatization

- Will the regulatory mechanism protect consumer interests in a privatized environment? Strict ROR regulation provides the strongest safeguards against monopoly profits through its extensive review process of the utility's costs and financial position Price caps also provide protection through the formula and periodic review, although to a lesser extent than strict ROR A bench-mark ROR approach guards against excessive profits, but does not necessarily provide incentives for cost (and therefore rate) minimization

- Does the regulatory mechanism provide sufficient incentives for efficient operations and management? Price caps generate direct incentives for efficient operations and management, if applied correctly If CDE is able to successfully implement cost reduction programs, its investors benefit through increased earnings Strict ROR offers limited incentives for efficiency if regulators oversee operational aspects of the utility, but there are built-in incentives for over investment in fixed assets if regulators do not scrutinize these decisions closely Bench-mark ROR (with no operational investigations) offers few incentives for cost minimization

- Will the rate-making process be relatively free from excessive political intervention? Again, the price cap approach scores relatively high in this category Once the initial prices are set, the only potential for excessive political intervention is in the review process, which would occur every three years Likewise, bench-mark ROR also satisfies this criteria because of the lack of political participation in the rate-making process Strict ROR regulation provides many more opportunities for political intervention through the decision as to what investments in rate base and expenses should be recoverable through rates, as well as the rate design process itself

- Will the regulatory mechanism provide (or require) expert regulation? Because strict ROR regulation would require extensive investigation into CDE's costs and financial performance, it requires (and fosters) the greatest level of regulatory expertise Price caps also require a relatively high level of expertise in setting the initial price and in the periodic reviews, though not to as great an extent as strict ROR Bench-mark ROR requires very little regulatory expertise

d Re-incorporate CDE Under General Legislation

CDE was created by Ley Organica No 4115 on 21 April 1955 in line Ley No 4018 authorizing the acquisition of La Compañia Electrica de Santo Domingo which was incorporated in the U S

Investors tend to feel more comfortable dealing with or owning a company which is incorporated under general legislation (the Commercial Code in the case of the Dominican Republic), as opposed to a company incorporated under a special statute This provides the investors with a measure of protection against being singled out for special adverse treatment at some future date

An additional reason for suggesting the formation of a new company is to protect investors from contingent and unrecorded liabilities of the existing CDE This is a preferred method than the provision by the seller of indemnities as such indemnities are complex to structure

and difficult to enforce

The simplest method of accomplishing this will be for CDE to transfer its fixed assets, rights of way, benefits under leases and useful inventories to the new company (for convenience referred to hereafter as "New CDE") Liabilities and accounts receivable should not be transferred Legal and tax advice will be required to ensure

- All taxes resulting from the transaction are waived
- The new company has clear and unencumbered title to the assets
- The asset values on transfer will constitute the basis for future tax depreciation
- The new company must not be responsible for any past service benefits applicable to employees

As part of its re-incorporation effort, the CDE should consider whether to incorporate a number of fully owned subsidiaries If the CDE's privatization strategy is to divide the company into a number of distribution and generation companies (see b above), it would be easier to sell these components if they were operated as wholly owned subsidiaries prior to sale

2 Financial Aspects

The second dimension of privatization plan is the improvement of the CDE's financial position In reviewing the CDE, we have identified three steps required to improve its condition, and achieve privatization as a final step

- Revalue CDE Assets and Re-structure CDE Capital
- Improve Financial Condition of CDE
- Value CDE and Sell CDE Equity

a Revalue CDE assets and re-structure CDE capital

Over the years CDE has revalued its assets by the application of indexes from published sources, adjusted for the effects of devaluation At the same time, it has restated its debt and other foreign balance in terms of local currency using then prevailing exchange rates

Utility asset registers tend to deviate from reality over time as retirements occur which are not properly recorded but which still are revalued We believe that investors in a privatized

CDE will require an asset valuation based on a physical engineering appraisal of depreciated replacement cost by retirement unit as a starting point for a new asset register which would be set in the company's tariff It will also be desirable for the valuation to be on an acceptable basis to the tax authorities so that the investor can claim tax depreciation on his cost

In regard to the capital restructuring, this is needed to protect investors from the claims of creditors As a result defaults, which typically give creditors rights over the assets that do not expire because of forbearance, and cross-default clauses have probably been triggered even in the case of any loans that have been properly serviced, investors may be exposed to creditors' claims Investors will not be willing to invest in an entity thus threatened, it is, therefore, necessary to "clean up" CDE's balance sheet We understand that negotiations are now being held with a view to transferring CDE's loans to the GODR with CDE providing the GODR with some combination of equity shares and loan paper in return Any such scheme should be carefully reviewed by commercial lawyers to ensure that the transaction meets the objectives of

- Reducing CDE's debt servicing costs
- Liberating the assets from any encumbrances

In addition, the employee pension scheme is massively under-funded and arrangements must be made to deal with this deficiency as soon as possible

It is possible to effect a transfer of assets as described in 4) below without a capital restructuring, if based on the presumption that arrangements will have to be made with the creditors regarding relinquishing the security of assets

b Improve Financial Condition of CDE

The sales value of any company is based upon, among other factors, its historical and potential profits Based upon December 1990 internal financial statements, losses before state subsidies and unrealized devaluation losses was RD$590 million Other financial figures indicate that the CDE collects just 72 percent of its bills Additional financial problems have been documented in other reports and are known to management

In general, the CDE needs to take two types of financial steps First, the CDE must undertake those operation changes that allow the CDE to best use its resources and thereby improve its financial situation These are described in the operational aspects section Second, the CDE must undertake those activities that improve management of the financial resources These include increasing revenues by raising tariffs, increasing collections, and reducing debt

It is not our intention to suggest CDE most have perfect balance sheets and income statements prior to selling the CDE but, rather, to point out that the better financial shape it is in, the greater likelihood of a sale at a politically acceptable price

c Value CDE and Sell CDE Equity

The final financial act will be to sell the CDE or its components or subsidiaries if it is to be subdivided Prior to the sale, the CDE will need to retain financial consultants to value the Company or its subsidiaries and to broker the stock offerings

The sale of equity in the New CDE (or in any of its newly formed subsidiaries) will provide an opportunity for the development of the local capital market and could constitute a large listing on the soon-to-be-established Bolsa By a careful structuring of the offer, ownership can be spread among many thousands of citizens However in view of the size of the company and the assumed limitations of the size of the local capital markets, it is likely that only a small percentage of ownership can be sold to the local population and there will be a need to attract a large foreign investor or consortium The share offer also opens the opportunity to implement a meaningful employee share ownership scheme

3 Operational Aspects

The efficiency and effectiveness of the CDE's operations will have direct relationship on its market value The CDE should work towards obtaining the maximum return on its resources We have identified three major operational steps

- Institutionalize Commercial Philosophy
- Streamline Operations
- Examine Alternatives

a Institutionalize Commercial Philosophy

As a government owned utility and one of the largest employers in the country, the CDE has allowed itself to become a large bureaucracy It must adopt a commercial philosophy that encourages effective productivity leading to profitability There are many varying approaches and methods to instituting this type of philosophy In general, these approaches suggest

- Developing measurable indicators which encourage a high level of performance for all positions and organizations
- Evaluating personnel and organizations based upon performance

45

- Matching personal responsibility and authority for an activity
- Delegating responsibility and authority to the lowest possible levels
- Matching performance with salary and benefits

b Streamline Operations

Our interviews with CDE management identified six major operational problems These problems directly impact on the ability of CDE to efficiently and effectively produce power, provide power to paying customers, and collect payment for power provided Specific problems identified include

- Development of a strategic plan--The CDE's top management has had significant turnover for many years This results in frequent changes of organizational direction A strategic plan, excepted by the Presidents of the CDE and of the Country should set the long term direction for the CDE This plan should be adhered to
- Theft of power--A recurring problem that results in the syphoning off of a large percentages of produced power The CDE has instituted the Program of New Users (PNU) and the Revenue Improvement Program (PMI) to combat this problem These have met with some success Until this problem is under control, few investors will be interested in purchasing the CDE The Country and the Government needs to understand the large toll this problem is placing on the CDE, and pass and enforce new laws that provide serious punishment for those individuals that steal power from the CDE
- Failure to disconnect users who don't pay--Only 72% of current customers are paying their bills The CDE needs to establish effective policies on when customers will be disconnect for nonpayment and then enforce those policies Commercial Office managers that do not enforce those requirements should be replaced
- Need to repair and rehabilitate generation, transmission, and distribution systems--To repair and extend the life of current systems the IDB and World Bank are investing in rehabilitating generation, transmission, and distribution infrastructure, systems, and related equipment Additionally, the CDE must institute a preventive maintenance program Investors will be uninterested in purchasing poorly performing assets

- Efficient and effective use of staff--It is our understanding that the CDE has made significant reductions in the number of staff From our limited review of field offices, it appears that great productivity is not being achieved Effective use of personnel resources can provide major productivity gains Personnel salary and benefits probably need restructuring to provide the proper motivation

- Removal of redundant processing--It appears that many of the organizations within the CDE have overlapping authority Further different procedures are used for the same functions such as billing The company needs to remove these redundant organization and procedures

c Examine Alternatives

In order to further enhance the selling price of CDE, and introduce a potential "big brother" investor, consideration can be given to engaging an element such as a management contractor or lessee in respect to all or some of CDE's operations The terms of the agreements will have an impact upon the value of CDE as an entity, therefore the shorter the term of the agreements the better It is of course recognized that the investors will need a sufficient term to recoup their investments

The issues under either arrangement are discussed below

1 Lease Option

A private operator could lease assets or facilities owned by CDE and use them to conduct business on its own account The lease would set forth the terms and conditions under which the lessee is to operate these assets and facilities, the compensations that must be paid to CDE and the respective responsibilities of the parties The key feature of a lease arrangement is that the lessee assumes the full commercial risk for operating the assets, that is, the lessee has to make the payment regardless of the profitability of the operation In addition to the lease payment, the lessee is normally obliged to maintain and repair the assets in use or to share such costs in accordance with an agreed schedule

In theory, at one extreme, the entire CDE operation could be leased out At the other extreme only a small component could be leased out

Unlike a management contractor, which assumes no financial responsibility for the company operation, the lessee suffers direct financial repercussions if it fails to use the leased assets in an efficient manner or fails to ensure good management

Under a lease, the lessee hires its personnel The lessee may hire existing personnel and integrate them into its own work-force In doing so, the lessee would exercise complete freedom of choice Under a management contract, the contractor may have broad powers over existing personnel, but the remaining employees of the enterprise are often subject to government pay scales and conditions The difference in the extent of control over the work-force (and the ensuing ability to upgrade its quality) can be quite wide between these two forms of arrangements and can affect the success of the operations under the lease or management contract

ii Management Contract Option

In preparing itself for a share offer, CDE could consider entering into a management support services contract with a foreign electricity company Under this option an expatriate electricity company would be brought in to take over the management of CDE The foreign company would be able to contribute its expertise and management skills At the same time it would be necessary to delineate responsibilities clearly as between itself and the majority stockholder, i e the government

Should the arrangement work well, the contractor could be invited to take an equity participation in the company Having had hands-on experience in the operation of the company, the foreign participant will be in a good position to assess fully the risks and opportunities This is exactly what happened in the case of the Caribbean Cement Company and Scancem, and it is expected that this is the route that will be taken by the electric company in Malaysia

Generally speaking, the management group will be given full management control and authority to manage The contractor derives its authority form the contract Whereas a lessee pays the state for the use of assets or facilities, a management contractor is paid by the state for its management powers and operational control, it has no financial exposure and receives its fee (or at least a portion thereof) regardless of the profitability of the enterprise

Under a management contract option, CDE would continue to bear the full commercial risk and would be responsible for all working capital and debt financing To this extent, it is not relieved of any burden in the form of the management fee The advantage of this arrangement is, however, that ownership is retained, a defined degree of control is maintained, and a high level of management and other skills is injected into the enterprise, enhancing its overall efficiency and profitability Attraction of investment directly into CDE would be enhanced if a well-known foreign utility was involved, particularly if the management company took an equity stake in CDE as well

The other areas which are suitable for contracting out would have to be identified, taking into account preconditions for the retention of existing staff and the capability of private sector companies to adequately provide the services The benefits which the company could

accrue include increased efficiency and lower costs We have addressed these areas in Section III of this report

C MODELS AND ISSUES OF INDEPENDENT POWER PROJECTS (IPPs)

This section discusses various issues and in the private power process, including the types of projects, financing concerns, possible project lenders, and recommendations for improving the private power process in the Dominican Republic

1 Types of Projects

The private power program in the Dominican Republic is heading in two separate directions

- Some developers are proposing projects that sell most or all of their power directly to end users, such as the CTGE-Santiago Free Trade Zone Project In most cases, the end users are businesses that are willing to pay a premium for reliable energy supplies not currently provided by CDE The advantage to having the private sector control both generation and end-user distribution is that such projects are much easier to finance, as government involvement and public uncertainty are minimized On the other hand, such projects tend to be small in size (and thus generate energy at a higher cost/kWh) and only serve commercial and industrial users

- Other developers are proposing projects that sell power mostly or completely to CDE (such as the PANDA project) This type of project, where the developer is only responsible for generation and sells power directly to CDE, will be more difficult to finance, as it ultimately relies on CDE's ability to pay for power and to provide currency exchange However this type of project is needed to provide service to residential users through the direct expansion of CDE's generating capacity Such projects also tend to be larger, reducing the cost/kWh

Specific aspects of each project type are discussed below

2 Private Utility Selling Directly to End-Users The Generation-Distribution Model

Under the Generation-Distribution Model, the private developer would construct the generating unit and sell most or all of the power directly to private sector end-users An example is the CTGE-Santiago Free Trade Zone Project This project proposes to sell its power first to the commercial and industrial tenants in the Free Trade Zone and then any excess is to be sold to CDE The major benefit of this power sales structure, at least from the investor/lender viewpoint, is that it is not necessary to rely on payments from CDE to make the project viable Additionally, Free Trade Zone customers can pay for power in hard currency, thereby eliminating both the risks of currency devaluation and the need for indexation provisions in the power purchase contracts

Because a "private-to-private" project such as this relies directly on industrial and commercial customers for its sales and revenue, financing is likely to be much easier than financing a project that sells all of its power to CDE Lenders may not require government guarantees of performance, although exchange availability and convertibility will still be an issue Nevertheless, given the great amount of financing required, the legal, economic and institutional conditions of the country and other risks to capital, it is likely that loans from multilateral development banks or government banks will be required However, due to the comparative ease of financing such a project, this type of private power project may be the first type to begin construction and come on line

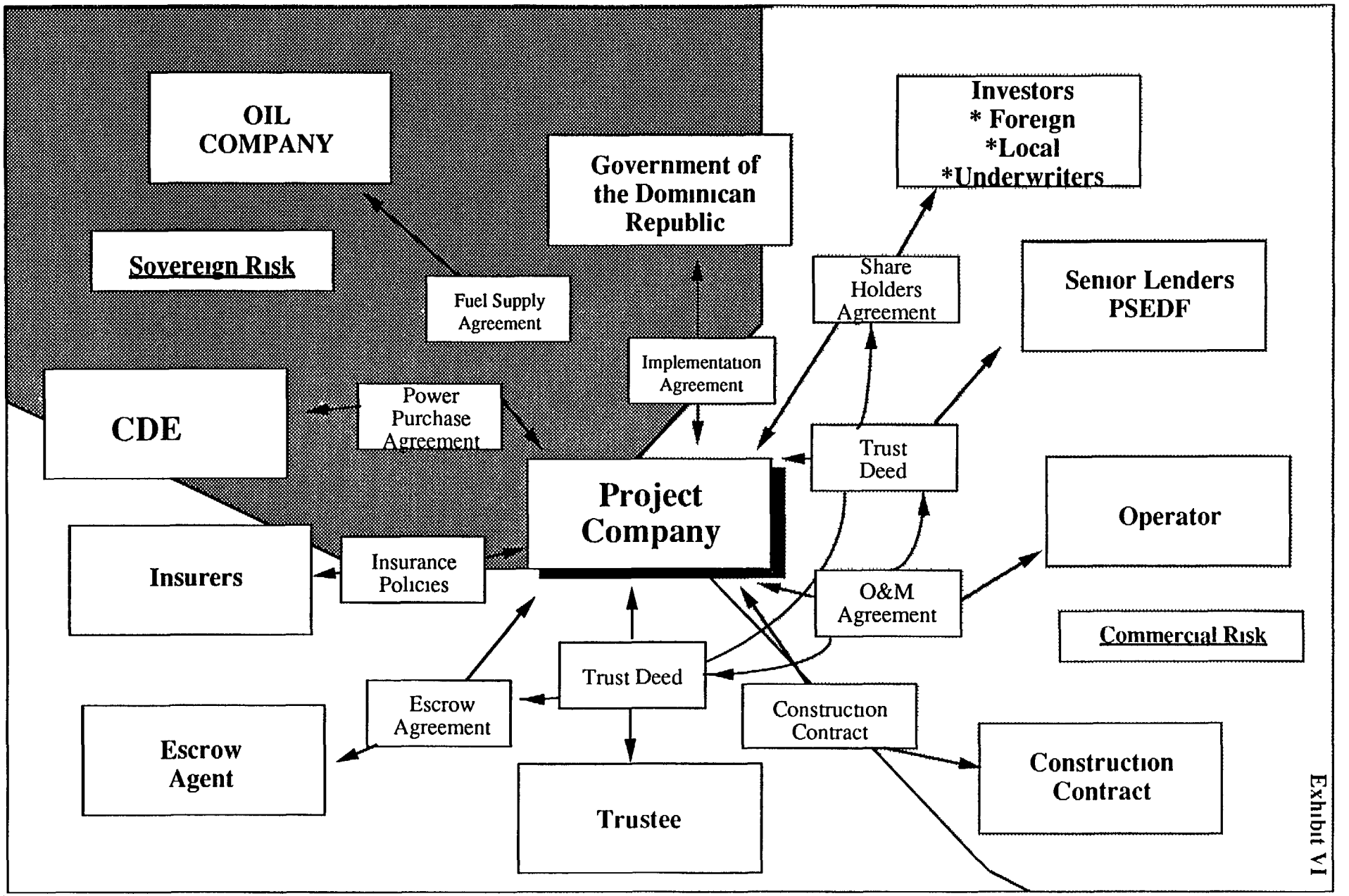
There are two main drawbacks of such a private power model First, if only projects of this type are implemented, the power availability for different customer classes in the Dominican Republic will be skewed -- industrial and commercial users will begin to have reliable power supplies from such private power developers while residential customers, served almost totally by CDE, will continue to face shortages and reliability problems A second problem is related to the size of such projects "Private-to-private" projects of this type may tend to be relatively small in size (for example the CTGE-Santiago FTZ project is about 20 MW) as they will only serve localized industrial needs, whereas larger projects serving larger areas would produce power at a lower cost/kWh

3 Private Utility Selling Directly to the CDE Grid The Generation Only Model

This type of power project sells power directly to CDE, and the developer is only responsible for generation When a private power project sells directly to CDE, it has to rely on CDE's and ultimately the Government's ability to pay for power and to provide currency exchange These risks create difficulties for projects of this type as they are much more difficult to finance than the Generation-Distribution projects discussed above Because a project of this type generates no foreign currency and relies on CDE payments to the private utility, lenders and equity investors will evaluate such a project in the same way they would evaluate a project making loans or investment directly CDE As a result, the necessary basis for a successful private power project of this type will be a large and complex set of agreements between investors/lenders and CDE as demonstrated by the Project Security Package Sovereign and Commercial Risk diagram (Exhibit VI) on the following page

Investor/lender perception of the legal, economic, and institutional conditions in the Dominican Republic will directly affect the number and content of the agreements required in each case Such projects have usually entailed an implementation agreement, a power purchase agreement, a construction contract, a fuel supply agreement, an operating and maintenance agreement, and a review by the government of the financing arrangements

PROJECT SECURITY PACKAGE: SOVEREIGN AND COMMERCIAL RISK



It is important to note that the implementation agreement deals with such issues as capital and income convertibility and transferability, recourse to the government for CDE performance issues, government loan guarantees of comfort, and foreign exchange risks These are all questions that require approval and implementation by the financial authorities The Power Purchase Agreement will contain pricing and price escalation provisions that have broad macro-economic significance for future developments

4 Financing Concerns

The financial issues are the central issues in any arrangement for private developers to build a generation plant and sell power directly to CDE

- Any private power project that is implemented will require guarantees or significant reassurance from the host government on both market risk (confirming that CDE will purchase and pay for power) and foreign exchange risk This is an invariable characteristic of the agreements

- Equally fundamental, the "take or pay" provisions of the sales contract will contain price adjustment or escalation provision features, as it is the basis for the financing of any private sector sponsored project Such features can have a significant impact of future tariff charges

In countries such as Pakistan, the World Bank has employed the use of a dedicated Private Sector Energy Development (PSED) Fund to stimulate both lenders and investors in the area of private power projects Because the Bank can not lend directly to private developers, it makes loans available to the government to create a relevant fund These fund resources are then used to make loans to private power developers To the extent that the loans are repaid, the fund becomes a long-term source of financing for private power

An important aspect of the fund which was set up in Pakistan is that its loans take a subordinate position to other project loans Thus lenders such as EXIM banks and other commercial banks who are initially unwilling to lend to a project, can be drawn into the project, as they hold first claim on funds available should the project have trouble meeting its debt service obligations The PSED fund thus is able to leverage the amount of financing available to the project

5 Private Power Lenders

Below we briefly discuss (the list is not all inclusive) several potential sources of funding for a Private Sector Energy Development (PSED) Program in the Dominican Republic

- World Bank (IBRD) -- The World Bank has become involved in private power initiatives via the establishment of a PSED Fund The Bank can not lend directly to private developers, the Bank does lend to a host country who in turn establishes such a fund which indirectly accomplishes a similar purpose

- Inter-American Development Bank (IDB) -- similar the World Bank, the IDB can not lend directly to private developers However, the IDB might be a possible contributor to a private sector development fund in the Dominican Republic

- U S Agency for International Development (USAID) -- USAID also can not lend directly to private developers However, in Pakistan for example, USAID provided funding both to the PSED Fund, as well as for technical assistance (engineering, legal, financial, institutional) in implementing the private power process

- International Finance Corporation (IFC) -- The IFC is the largest source of direct project financing for private investment in developing countries The IFC differs from the World Bank in that the IFC lends only to the private sector Loans may range from as low as $5 million up to about $100 million, and it will lend up to 25% of a projects costs The IFC also provides direct equity investment and technical assistance The IFC only invests in projects where arrangements have been made for the repatriation of invested capital and earnings

- Overseas Private Investment Corporation (OPIC) -- OPIC is a U S Government Agency established to promote private U S investment in developing countries OPIC provides both political risk insurance and investment capital through direct and guaranteed loans The major restriction is that the project must have significant involvement by U S businesses

- Inter-American Investment Corporation (IIC) -- Similar to the IFC's role as the private lending arm of the World Bank, the IIC is the private lending arm of the Inter-American Development Bank They generally makes loans in the $10 million range, and would thus only take a large lending role in relatively small power projects

- 936 Funds -- An additional source of funding applicable to the Dominican Republic are so-called "936 funds", which were established under Section 936 of the U S Internal Revenue Code These are profits of U S Corporations based in Puerto Rico that are tax exempt if they remain invested in any Caribbean Basin Initiative country Due to country and other risks, these funds are available only in conjunction with other credit enhancements or loan

guarantees

- Export-Import Banks (EXIMs) -- The United States and several other countries have Export-Import Banks that offer loans to projects that contain significant bank-country materials or equipment In the case of the U S EXIM Bank, there is a requirement that the borrower be a small business or be faced with foreign competition backed with subsidized financing

6 Recommendations to Improve The Environment for Private Power in the Dominican Republic

While there are lenders willing to become involved in private power projects, the CDE and the GODR can take several steps to improve the overall environment for private power These steps include

- Multilateral Investment Guaranty Agency (MIGA) participation -- In order to provide private power investors with protection for currency exchange convertibility, the Dominican Republic should consider joining MIGA MIGA provides investors insurance coverage (for a fee in the area of 1 5% of exposure) for risks of expropriation, convertibility, and war Providing investors access to MIGA, in which some 105 countries participate, would allow them to protect themselves against some of the risks through MIGA insurance

- Continued liberalization of foreign exchange laws -- The recent liberalization of foreign exchange laws and policies by the GODR and the Central Bank is a positive step that provides private power investors with confidence that their investments will be protected Additional efforts at liberalizing the exchange laws will further enhance the investment environment

- Improvement in financial situation of CDE -- As discussed above, one of the major concerns of private power investors who are selling power directly to CDE is the ability of CDE to make timely and adequate payments for that power, given CDE's financial condition The continuation of current efforts aimed at improving CDE's financial condition through cost cutting, contracting out of services such as billing/collections, and loss reduction programs will be viewed as a positive sign by investors Other legal and regulatory improvements (as discussed previously in this report) that improve the overall investors confidence in CDE will also be a positive sign

  The question of tariff increases is directly related to improving the financial condition of the CDE While tariff increases may be necessary at some point, they should be coordinated with concrete improvements in service to show

customers that they are paying more for better service Many customers should be willing to pay more if their service improves For example, tariff increase could coincide with the start of operations of new private power generation plants that provide more reliable service

- Examination of financing possibilities -- Given the problems many developers will have in obtaining financing with their projects, the CDE may want to discuss various financing issues with various lenders For example, the possibility of setting up a Private Sector Energy Development Fund could be examined

- Unified private power negotiating group -- One of the major impediments to private power projects in other countries has been the lack of coordination among the various government agencies negotiating with the private developers In some countries, several government agencies have responsibilities in the private power process, including the national utility, various Ministries such as Finance, Energy, and Planning, the Central Bank, regulatory agencies, and perhaps the President's investment council In the Dominican Republic the likely entities involved would be CDE, the DDRIE, and the Central Bank at the least It is important that such agencies work together to present a unified negotiating position to the developers and speak as one voice Otherwise, governmental infighting and organizational problems can slow the private power process

7 Summary to IPP Section

The emergence of the Dominican Republic and CDE's private power program is just beginning, and is dictated heavily by financial constraints on both CDE and private developers A probable scenario for expanding the generation capacity in the Dominican Republic will be a two step process, an incorporation of both a short-term and a long-term program

The short-term strategy for improving generation capacity in the Dominican Republic will most likely be characterized by the rehabilitation of CDE's current generating capacity through multilateral funding coupled with smaller private power projects, such as those discussed in Model I, which do not rely on power sales to CDE In this way, CDE will be responsible for improving its own generating capacity, particularly for service to residential users, and the small private developers will complement CDE's improvements by mainly servicing the commercial and industrial sectors

In the long-term, as CDE becomes more solvent, and more specific funding is set aside for private power projects in the Dominican Republic, larger private power projects such as those discussed in Model II may be implemented These larger projects will concentrate on

selling power directly to CDE, and possibly lead to the eventual privatization of the company As CDE improves its financial situation, and financing becomes more feasible, this long-term strategy of improving the power sector as a whole will directly follow

CORPORACION DOMINICANA DE ELECTRICIDAD

STATEMENT OF WORK - BILLING AND RELATED FUNCTIONS

1 Introduction

The Corporacion Dominicana de Electricidad (CDE) understands that electric energy is an essential primary source for the socio-economic development of the Dominican Republic The CDE is currently experiencing considerable technical and non-technical losses of electric power, which in turn affect the economic well-being of the nation In order to better the distribution of electric energy, the CDE believes that it is necessary for selected commercial aspects of CDE's operations to pass to the hands of the private sector, without any contrary effect on the service to its clients

1 1 Purpose of the Contract

The CDE understands that as a first step in decreasing the extent of the electric sector problem of the nation, it must contract out selected commercial functions This transfer of responsibility will aim to increase CDE's efficiency and cash flow CDE has also determined that this transfer must occur in the least time possible, and that such transfer will better service and reduce technical and fraudulent losses

1 2 Role of Contractor

It is the purpose of this solicitation to transfer to the private sector, the responsibility for selected commercial aspects These selected commercial functions will include, but not be limited to, the following

1 2 1 Billing

Includes, but is not limited to, the following functions

- o Determination of electrical consumption
- o Generation of bill
- o Update of account information
- o Delivery of bill
- o Coordinate reports with CDE and other contractors, as appropriate
- o Resolution of customer billing disputes

- o Maintain records for a period of seven years Must allow access to CDE at all times

1 2 2 Customer Service

Includes, but is not limited to, the following

- o Receive and process new service requests and charges
- o Process current client service requests
- o Process billing problem disputes

1 2 3 Technical Support of Commercial Activities

Includes, but is not limited to, the following functions

- o Meter installation
- o Meter removal
- o Service connection
- o Service disconnection

Only national companies or consortiums will be eligible for this solicitation The contract will be for an initial period of three (3) years, with three option years exercised by the CDE

1 3 Relationship with Collections Contractor

The CDE has determined that a separate contract will be issued for the commercial functions involved in the collection of funds from clients The separation of commercial duties between the two contractors will inherently establish self-balancing controls and interdependence, which will ensure that contractors would perform the functions efficiently and accurately Contractors bidding for the Billing and Related Functions commercial aspects will not be allowed to bid on the Collection contract Exhibits I and II present the division of commercial functions between contractors

However, the Billing and Related Functions Contractor will receive data from the Collection contractor on a daily basis To eliminate duplication of systems development effort, the CDE expects the Billing and Related Functions Contractor to have the responsibility for the design, development and implementation of the appropriate systems and interfaces (with CDE concurrence)

USAID/SANTO DOMINGO
CORPORACION DOMINICANA DE ELECTRICIDAD
CONTRACTING-OUT OF COMMERCIAL FUNCTIONS

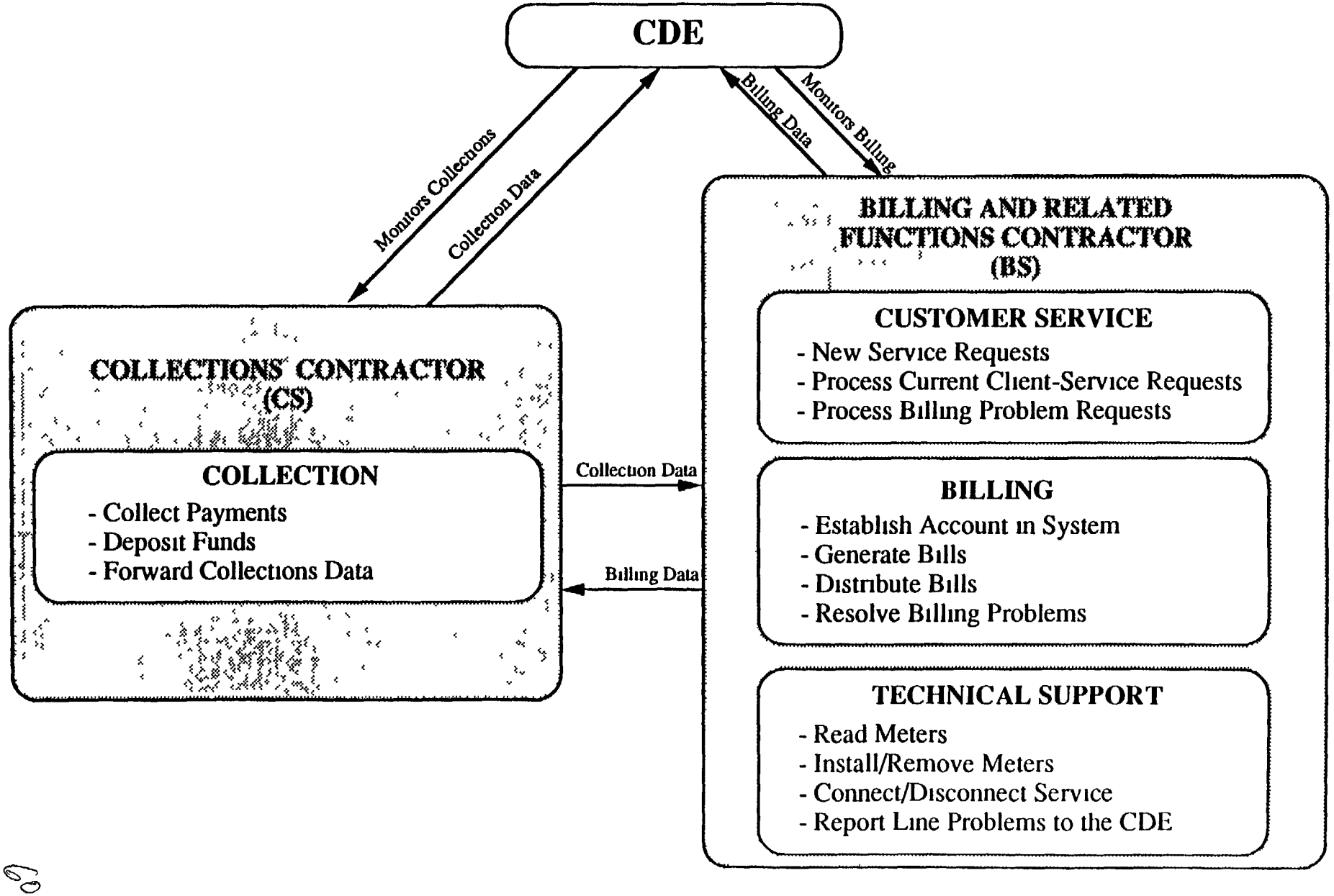


Exhibit I

CORPORACION DOMINICANA DE ELECTRICIDAD
WORK FLOW OF COMMERCIAL FUNCTIONS

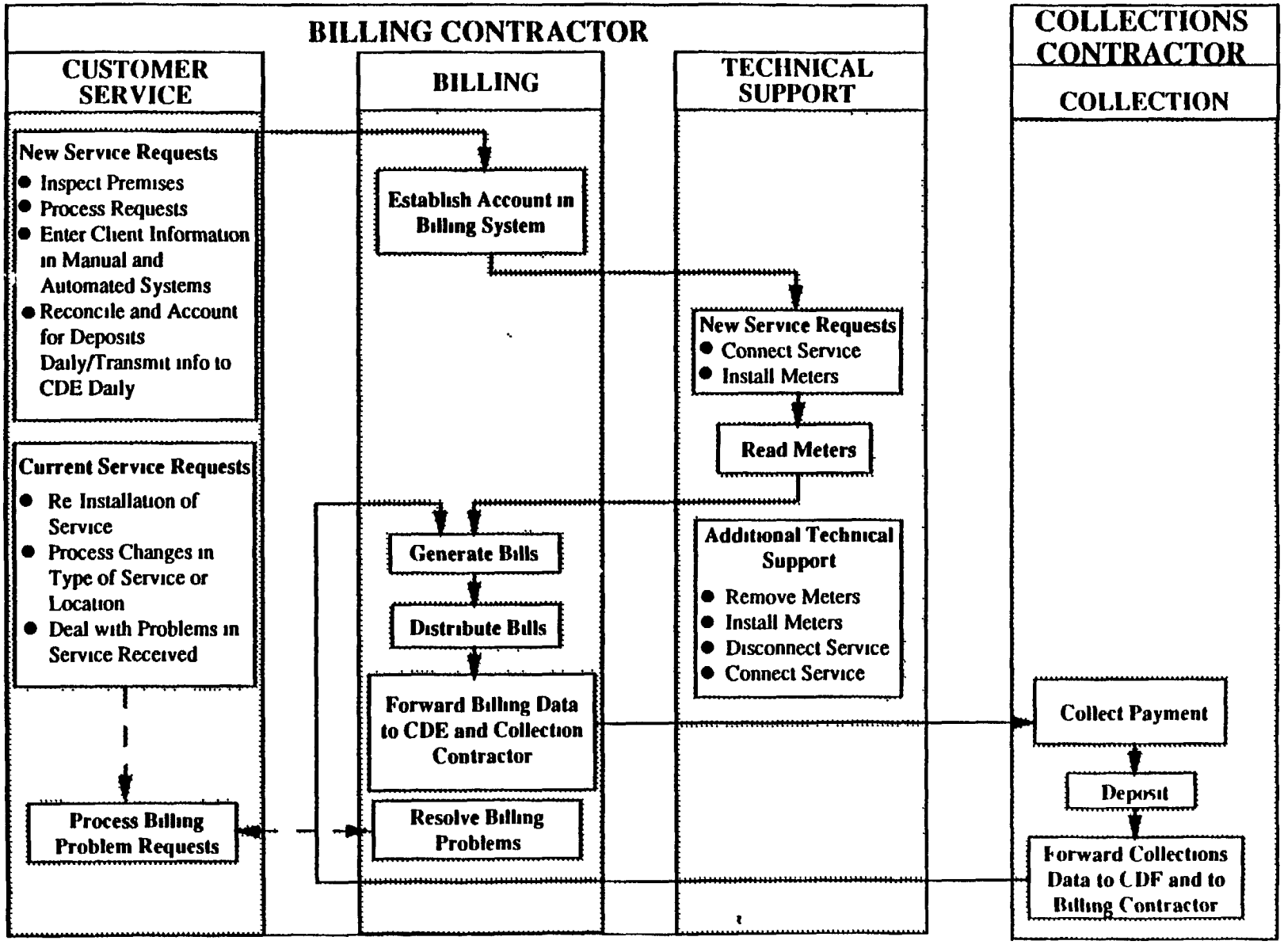


Exhibit II

6

2 Overview of CDE and the Dominican Regulatory Environment

The CDE is the sole entity responsible for the generation, transmission, and distribution of public electricity service in the Dominican Republic CDE is administered by a seven-member Board of Directors appointed by the Government The President of the Republic appoints the President of the Board and the General Administrator (CDE's Chief Executive Officer)

2 1 Organization of CDE

Responsibility for the functional, operational, and financial procedures is vested in the General Administrator The General Administrator delegates authority of all technical functions to the Technical Sub-Administrator, and all administrative and financial authority, including commercial functions, to the Administration and Finance Sub-Administrator

2 1 1 Commercial Functions

Currently, the Commercial Director, who reports to the Administration and Finance Sub-Administrator, is responsible for all commercial activities The commercial activities are organized on a geographic basis with five zones existing throughout the country

- National District
- East Zone
- South Zone
- North Zone
- Northeast Zone

Within each zone there are numerous Commercial Offices that perform the functions described in this solicitation

2 2 Regulatory Issues

The Contractor awarded this contract must act within the country's current regulatory structure, including:

2 2 1 Law 14-90 of 1990

Law 14-90 outlines the role of the private sector in the generation, transmission, distribution and commercialization of electricity in the Dominican Republic The law permits the production and selling of electric energy to private national or foreign companies, and establishes fiscal incentives for private investment in this area

2 2 2 DDRIE

The Directorio de Desarrollo y Reglamentacion de la Industria de la Energia Electrica (DDRIE) was created through Law 14-90 DDRIE is charged with the coordination and regulation of the electric energy industry in the country, including generation, transmission, and commercialization functions Additionally, it acts as executor and administrator of CDE's privatization politics

2 2 3 Other Laws

Any other laws applicable to the electric sector

2 3 CDE Operational Statistics

The following are recent operational and financial statistics for the CDE

OPERATION	1990	1991[1]
Potential Generation Capacity (MW)	1300[2]	1300[2]
Actual Generation Capacity (MW)	630	460
Losses (% of generation)	32 50	34 99
Number of Legal Clients	[3]	593,975
Number of Illegal Users	600,000[2]	[3]
Amount of Generation Billed (RD$)	1,832,459	2,100,084
Amount Collected (RD$)	1,251,250	1,535,130

1 Projected Based on May 1991 figures
2 Estimated.
3 Not available

2 4 Growth Strategies Through 2005

Considering the projected growth in the country's future demand for electric service, the CDE has outlined a Plan of Generation Expansion (Plan) for the period 1991-2005 to meet anticipated energy requirements

2 4 1 Increase in Generation Capacity

The Plan aims to add to the current generating system a total of 14 new generation units, which will increase potential generating capacity from 1300 MW to 1668 MW, as follows

- o 6 hydroelectric units with a total of 293 MW capacity
- o 5 thermal units of 125 MW capacity each
- o 3 thermal units of 250 MW capacity each

2 4 2 Improvement of Transmission and Distribution

Inadequate financing levels have caused delays in the installation of needed facilities, an insufficient level of preventive maintenance, and lack of funds to purchase needed repair materials A significant deterioration of the transmission and distribution networks, due to the cumulative effects of inadequate maintenance, has resulted in significant deterioration of the transmission and distribution networks The Plan intends to improve distribution and transmission with World Bank and IDB funds currently available

2 4 3 Privatization Strategy

The CDE believes that the magnitude of the electric sector problems in the Dominican Republic will diminish only with the intervention of the private sector As a result, the CDE is considering four options for private sector involvement

- o Contracting out its distribution and commercial functions
- o Contracting out its support services, services which do not directly affect the primary functions of the CDE
- o Entering into joint ventures with private generation companies for increased generation capacity

- o Privatization of generation, transmission, and distribution functions of the CDE

2 4 3 1 Privatization of Distribution Function

One alternative currently under consideration is the privatization of the distribution function This alternative would result in the formation of private distribution companies responsible for purchasing power, distributing power, and billing and collection for power within a geographic region It is possible that this contract will be considered as the starting point towards instituting this alternative

3 Definitions

The following definitions will be used throughout this solicitation

3 1 Contractor

The party awarded a contract under this solicitation and who will be responsible for the functions and activities that are described in this solicitation

3 2 Delegated Authority

The contractual obligation selected for the intervention of the Contractor The Contractor is responsible for the billing, customer service, generation and distribution of bills, meter installation and removal, and service connection and disconnection of the selected commercial functions of the CDE

3 3 Control

Once control has been effected for these activities by the Contractor, the CDE maintains the right to solicit the Contractor to proceed with additional activities proper to the selected commercial functions of the CDE, that the contractor is performing

3 4 Scope of Work

The tasks entailed in this contract which are the responsibility of the Contractor, include the billing, customer service, meter installation and removal, and service connection and disconnection, in the designated zone(s) Also entailed are those tasks necessary for the efficient and automated execution of the responsibilities defined in this contract.

3 5 Selected Commercial Activities

Those activities currently performed by CDE Commercial Officers as described in this solicitation generally including

- o Billing
- o Customer Service
- o Meter installation and removal
- o Meter Reading
- o Service connection and disconnection

3 6 Commercial Offices

An office which currently performs all the activities and functions described as selected commercial activities

3 7 Hours of Operation of Billing Centers

The hours of operation of all offices will be

- o Monday through Friday, 8 00 AM to 6 00 PM
- o Saturdays, 8 00 AM to 12 00 PM

3 8 Zone Jurisdiction

The geographic area for which the Contractor will be responsible encompassing the _____ Region of the country including _____ Commercial Offices

3 9 Tariffs

The CDE has numerous Tariff categories with a range of tariffs within each category Appendix 1 provides a listing of current tariffs by category The contractor will use these tariffs for computation of client invoices The Contractor will adjust its invoices to reflect any modifications in tariffs

3 10 Grid or Network

The transmission and distribution lines used for distributing electrical power to the clients

3 11 Client

The person(s) who legitimately receives electric service, i e , the end-user of electricity

4 Contractor Requirements

4 1 Overview

The selected Contractor will be responsible for performing all functions and activities described in this section of the solicitation, and for providing facilities, all personnel, equipment, tools, materials and supplies necessary to perform these functions and activities The Contractor will perform theses tasks in a timely and accurate manner The Contractor will need to coordinate with CDE and other Contractors for proper performance of responsibilities

4 2 Manage Billing and Associated Functions

The Contractor will establish and operate the necessary billing centers, related financial management systems, in the designated zone(s) of the Country, and perform all activities required in this Solicitation The Contractor may establish such other ancillary offices as it determines is necessary to properly perform responsibilities, subject to CDE approval. The Contractor will provide all resources required to operate these offices as described throughout this solicitation

4 3 List of Current and New Clients

The CDE will provide the Contractor with a list of current CDE and Programa de Nuevos Usuarios (PNU) clients in the zone and such other information as is required to perform the activities required in the solicitation The Contractor will be responsible for performing the required services for the entire client-base within the specified region. The Contractor is encouraged to expand the client-base The Contractor will inform the CDE and the Collection Contractor of such new clients in order to update CDE records and service appropriately

4 4 Develop Overall Quality Control and Internal Control Systems

The CDE is committed to providing its Clients with the highest quality service possible The Contractor will develop and implement quality control and internal control procedures, programs, and systems for all activities under this solicitation that

will achieve the following objectives

- o Ensure financial records of CDE reflect most current financial information and client account status
- o Ensure that services are performed correctly and accurately and that client service is performed at the highest possible levels
- o Prevent fraud, waste, and abuse
- o Ensure that all assets, particularly funds, equipment, and payment records are closely controlled
- o Prevent unauthorized access and use of lines and electricity, where applicable to its activities
- o Provide for validation, checks and audit trails

The Contractor will describe in its proposal all procedures, programs, and systems that it will establish for quality and internal control of all functions and activities

4 5 Design, Develop, and Implement (providing all hardware, software, peripherals and equipment) an Automated Billing and technical support system

The Contractor will design, develop, and implement all processing systems necessary to provide accountability for clients' accounts, billings and related information requirements and technical support of clients (i e , meter type, number and location) The Contractor will obtain and install the appropriate hardware configuration to provide for adequate processing capacity, in accordance with CDE requirements and standards This system must interface with the systems the CDE and the Collection Contractor use

The Billing and Related Functions Contractor must establish a relationship with the Collections Contractor in the design, development, and implementation of the billing and collection system and of the interfaces necessary to fulfill its contractual obligations. To eliminate duplication of systems development effort, the CDE expects the Billing Contractor to have the responsibility for developing appropriate computer systems

4 5 1 Define System Requirements Consistent with Current CDE Financial and Billing and technical support systems, Subject to CDE Approval

The Contractor will design and develop a billing and service support system which meets, at all times, CDE's functional, control, and communication requirements These requirements include, but are not limited to, the items described below

4 5 1 1 Meet Processing Demand

Processing requirements include, but are not limited to, the items listed below

4 5 1 1 1 Meet Current Demand

The Contractor's billing and technical support system will provide sufficient capacity to process the number of clients serviced It is estimated that there are 1 3 million users of energy for the country as a whole Approximately 600,000 currently are registered clients

4 5 1 1 2 Meet Future Demand

The Contractor's system will require sufficient capacity to absorb significant increases in client base resulting from expansion in the client base

4 5 1 1 3 Satisfy Requirements

The Contractor's system will meet the requirements as set forth by the CDE at all times

4 5 1 2 Provide Integrated System Which Allows Access to All Records From all Commercial Offices and Billing Centers Throughout the Region

The Contractor's system will be able to forward to CDE and accept from CDE any and all client account information in order to respond to all client inquiries, as necessary. The Contractor's access and communication controls systems and procedures will adhere to CDE specifications, at all times

4 5 1 3 Provide Back-up Power Supplies--Down-time during Operating Hours

The Contractor will purchase and install adequate back-up power capabilities to ensure that billing and technical support systems will remain operational during business hours In addition, the Contractor will develop and implement adequate procedures to ensure that the billing and technical support system remains operational in case back-up power procedures fail

4 5 1 4 Develop Operational Procedures and Controls such as Daily Back-up of Records and Audit Trail Reports

The Contractor's system will have standard data-entry, processing, audit trails, and back-up controls and procedures to ensure proper accountability and safeguard of financial information

4 5 1 5 Provide Adequate Systems Security to Prevent Unauthorized Access or Use of Systems

The Contractor's system access and communication controls and procedures will adhere to CDE specifications in order to prevent unauthorized access or use

4 5 1 6 Provide On-line (real time) Interface Between CDE Systems and Contractor Systems

To effectively and rapidly process and transmit critical financial information, the Contractor's system will allow for on-line communication with CDE's billing and financial systems and other contractor's collection system The Contractor's system access, internal audit, and communication controls and procedures will adhere to CDE specifications Additionally, the Contractor will develop and implement adequate procedures to ensure that the communication between the Contractor, CDE billing and technical support systems, and other contractor systems remains consistent and on schedule

4 5 1 7 Transmit Data Electronically to CDE and Collection Systems According to Current CDE System Requirements

The Contractor's system will provide for electronic communication with CDE's billing and technical support system, and other contractor's collection system On a

daily basis, the Contractor's system will electronically update CDE's billing and technical support system The Contractor's system access, internal audit, and communication controls and procedures will adhere to CDE specifications The Contractor will develop and implement adequate procedures in case electronic data transfer capabilities are down, in order to ensure that the billing and technical support system remains consistent and on schedule The Contractor will also establish communication with the entity responsible for collections

4 5 1 8 Modify System as Required to meet Changing CDE Needs and Systems Requirements

CDE's requirements will change as a result of various expansion, rehabilitation, and privatization programs Enhancements to the Contractor's system will be implemented as necessary to meet the CDE's changing demands and needs

4 5 2 Develop Implementation Plan and Schedule and Implement System

The Contractor will develop an implementation plan for the adequate design, development, installation, testing, and implementation of the Contractor's billing and technical support system and proper interface with CDE billing and technical support systems, and other contractor's systems The implementation plan is subject to CDE requirements including but not limited to the items listed below

- o Implementation plan will include development process schedule and define deliverables
- o Implementation plan must provide adequate time to test that system meets requirements
- o Implementation plan is subject to CDE approval.
- o The Contractor will allow for adequate participation and interim approval by CDE

4 6 Process Billing

The Contractor will establish appropriate procedures and dedicate adequate resources to effectively and adequately generate, distribute, and report on client billings

4 6 1 Procedures

The Contractor will establish procedures for timely and accurate billing of clients Minimum procedures for processing clients bills include but are not limited to the following items

- o Enter consumption into the billing and technical support system
- o Generate bills showing usage charges for prior month at appropriate tariff, prior balance, penalties, interest, collections posted, and related charges as appropriate Invoices will show date payment is due
- o Print bills on approved invoice form
- o Distribute bills
- o Resolve billing complaints

4 6 1 1 Accounts Receivable

The Contractor will establish procedures to identify, follow-up and collect past-due accounts receivable The Contractor will terminate service to all clients with arreages of 60 days, who have not negotiated a repayment schedules Service must be terminated within 10 business days of the 60 day deadline

4 6 2 Operate within Performance Requirements

The Contractor will operate billing procedures within performance requirements as specified by CDE, including, but not limited to,the following items

- o Enter Meter Data into the Billing and technical support system within 2 Days of Reading.
- o Print Bills within 2 Days of Established Cycle Schedule
- o Clients Receive Bills within 2 Days of Scheduled Date
- o Meet CDE approved operating cycle schedules

4 6 3 Controls

The Contractor will maintain adequate controls over billing process, including, but not limited to, the following areas

- o Date entry of meter information and readings through verification procedures and system validation edits
- o Timely and accurate distribution of bills

4 6 4 Reporting

Provide daily and monthly billing reports by office, tariff type, zone, and other information needs as required by CDE and other contractors

4 7 Service Client Requests

The Contractor will establish procedures and systems to process, effectively and rapidly, applications for new client service and current client services including, but not limited to, the items listed below

4 7 1 New Service Requests

The Contractor will establish appropriate procedures and dedicate adequate resources to attend and process applications for service

4 7 1 1 Procedures

The Contractor will establish procedures for the timely and accurate processing of new service requests Minimum procedures for processing new service accounts include, but are not limited to, the following items

- o Assist clients in completing applications for service
- o Perform credit checks and investigate prior account balances coordinating with CDE (and PMI) as necessary
- o Inspect premises for potential usage, load, meter type, meter location, meter number, meter balance, post number, etc as appropriate for all tariff sectors (e g , Residential, Commercial, and Industrial Clients)

- Estimate monthly usage and determine adequate deposit amount which should cover two months usage

- Determine new account number, cycle, tariff type, and commercial office consistent with CDE practice and account structure

- Complete service contract and obtain client's signature

- Enter client information in appropriate manual and automated systems

- Receive security deposits, deposit them in an appropriate CDE trustee bank account, and maintain records of deposits

- Deposit funds into CDE accounts on the day received

- Reconcile and account for deposits daily

- Transmit deposit and client information to CDE and other contractors as needed daily as per CDE requirements to update records and service appropriately

4 7 1 2 Performance Requirements

The Contractor will operate new service request procedures within performance requirements as specified by CDE, including, but not limited to,the following items

- Approve application within two days of request

- Perform inspection within two days of application approval

- Enter new account in system within two days of inspection

- Deposit and account for funds daily

4 7 1 3 Controls

The Contractor will maintain adequate controls over application process, including, but not limited to,the following areas

- Deposit of funds

- o Credit deposits to appropriate accounts
- o Oversee inspectors

4 7 1 4 Reporting

The Contractor will provide daily and monthly activity reports by office, tariff type, zone, and other information needs as required by CDE, and other contractors

4 7 2 Process Current Client Service Requests

The Contractor will establish procedures, controls, and reporting to effectively process client requests related to current service (not claims) within standard performance requirements Client requests related to current service may include the following items.

- o Re-installation of service
- o Changes in type of service or location
- o Changes in name and address
- o Problems in service received.
- o Billing disputes
- o Replacement of meters, posts, lines and other equipment

4 7 3 Client Claims

The Contractor will establish appropriate procedures and dedicate adequate resources to effectively and adequately process and resolve client claims

4 7 3 1 Procedures

The Contractor will establish procedures for timely and accurate response and resolution of client claims Minimum procedures for processing clients claims include, but are not limited to, the following items

- o Develop and adhere to client service philosophy in processing claims and

complaints

- o Meet with clients issuing claims
- o Receive telephone inquiries
- o Forward authorized adjustments for entry into collection system to adjust client accounts accordingly
- o Negotiate balance repayment plans with clients in accordance with CDE policy
- o Respond to technical complaints for Requirement Areas stated in Section 4 7 by forwarding information to appropriate technical office for resolution
- o Receive complaints for clients out of Contractor's area of responsibility and forward information to appropriate CDE office for resolution
- o Communicate resolution of claims and complaints to clients

4 7 3 2 Performance Requirements

The Contractor will process client claims within performance requirements as specified by CDE, including, but not limited to, the following items

- o Service all Telephone Inquiries within 5 Minutes of Receipt
- o Meet with Personal Complaints within 15 minutes of client's arrival
- o Communicate resolution of claim within clients' billing cycle

4 7 3 3 Controls

The Contractor will establish and maintain adequate control procedures for processing client claims effectively, including, but not limited to, the following areas

- o Maintain a log identifying the person, account number, address, nature of complaint, and resolution of complaint.
- o Maintain audit trail of financial impact of client claims.

4 7 3 4 Reporting

The Contractor will provide daily, weekly, monthly, and annual reports by office, tariff category, zone, and other information needs as required by CDE, of client claims processed and respective resolutions

4 8 Provide Technical Support

The Contractor will establish appropriate procedures and dedicate adequate resources to effectively and adequately provide technical services in support of billing, meter installation and removal, customer service, and service connection and disconnection

4 8 1 Read Meters

The Contractor will read all client meters, in support of client billing The Contractor will be responsible for establishing appropriate procedures and designating appropriate resources to effectively and efficiently measure electric consumption for all clients

4 8 1 1 Performance Requirements

The Contractor will read meters within the performance requirements specified by CDE, including but not limited to, the following items

- o Measure consumption, as appropriate
- o Meters must be read two days of scheduled date
- o Terminate service if unable to read meter, after 5 days of second attempt

4 8 1 2 Controls

The Contractor will establish and maintain adequate control procedures for the meter recording process, including, but not limited to, the following areas

- o Maintain a historical record of all meter reading lists and measured consumption used in the past, this will include a list of all meters read, meter address, and all other items contained in the meter reading list
- o Maintain a log identifying all meters which were not able to be read

4 8 1 3 Reporting

The Contractor will provide a weekly, monthly and annual report by office, tariff category, zone and other information needs, as required by CDE, of all consumption measured and any associated problems

4 8 2 Install Meters

The Contractor will establish appropriate procedures and dedicate adequate resources to effectively install properly functioning meters

4 8 2 1 Procedures

Based on information forwarded from CDE or Collection Contractor, the Contractor will effectively and efficiently install meters at the following times

- o Opening of account for new service, if a meter is not at that location
- o To replace broken or incorrectly operating meters
- o As otherwise determined to be appropriate by CDE

Prior to installation, meters will be examined in order to ensure proper calibration

4 8 2 2 Ownership of Meters

Meters will remain the property of the CDE, and will be available through a CDE designated pick-up point.

4 8 2 3 Performance Requirements

The Contractor will install meters within performance requirements as specified by CDE, including, but not limited to the installation of new meters within 5 days of approval of service

4 8.2 4 Controls

The Contractor will establish and maintain adequate control procedures for installing meters effectively, including, but not limited to, the maintenance of a log identifying the location and reason of all meters installed

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4 8 2 5 Reporting

The Contractor will provide a weekly, monthly and annual report by office, tariff type, zone, and other relevant information needs, as required by CDE, of all meters installed

4 8 3 Service Connection and Disconnection

The Contractor will establish procedures and systems to effectively and rapidly service connection and disconnection to clients, including entering client information in appropriate manual and automated systems

4 8 3 1 Service Connection

The Contractor will establish procedures and systems to effectively and rapidly service connection to clients, including entering client information in appropriate manual and automated systems

4 8 3 1 1 Performance Requirements

The Contractor will enter new account in system within two days of receipt of information

4 8 3 1 2 Controls

The Contractor will maintain adequate controls over the connection and disconnection of service

4 8 3.1 3 Reporting

The Contractor will provide daily and monthly activity reports by office, tariff type, zone, and other information needs as required by CDE

4 8 3 2 Service Disconnection

The Contractor will establish appropriate procedures and dedicate appropriate resources in order to efficiently disconnect service, and upon receipt of the appropriate forms from CDE and other contractors

4 8 3 2 1 Procedures

The Contractor will disconnect service upon the receipt of the appropriate forms originating from the CDE and other contractors indicating a delinquent account, and for the following reasons

- o Upon detection of fraudulent connections
- o Verification of meter tampering
- o Refusal of access or nonaccess to meters after notification
- o As a result of such other activities as deemed appropriate or required by the CDE or other contractors

4 8 3 2 2 Method of Disconnection of Service

Service will be disconnected through a bypass on the lines leading up to the residence or through other appropriate procedures approved by CDE, and not through the removal of meters

4 8 3 2 3 Performance Requirements

The Contractor will disconnect service within performance requirements as specified by CDE, including, but not limited to the following

- o Disconnect service in accordance with solicitation procedures after denial of meter reader access
- o Disconnect service within 2 days of balance due date
- o Disconnect a fraudulent connection within 3 work days of discovery

4 8 3 2 4 Controls

The Contractor will establish and maintain adequate control procedures for disconnecting service effectively and efficiently, including, but not limited to, the maintenance of a log identifying the location and reason of all service disconnection

4 8 3 2 5 Reporting

The Contractor will provide a weekly, monthly and annual report by office, tariff type, zone, and other relevant information needs, as required by CDE, of all clients whose service was disconnected

4 8 4 Remove Meters

The Contractor will establish appropriate procedures and dedicate appropriate resources in order to remove meters

4 8 4 1 Procedures

The Contractor will establish appropriate procedures and dedicate appropriate resources to remove meters Meter will only be removed when they are deemed to be broken, malfunctioning, building structure is to be demolished, to replace existing meter with better, more efficient meter, or when determined to be appropriate by the CDE

4 8 4 1 1 Ownership of Meters

All meters will be provided by CDE and will be their exclusive property Upon removal the meters will be returned to the designated CDE office

4 8 4 2 Obtain Meters from and Return to CDE

The Contractor will establish appropriate procedures and designate appropriate resources to effectively and efficiently obtain and return meters from a CDE designated location.

4 8 4 2.1 Pick-up Meters from Locations Identified By CDE for installation

The Contractor will identify in conjunction with CDE officials a determined location from which meters will be picked-up for installation

4 8 4 2 2 Return Meters Requiring Repair or Recalibration to CDE

All meters requiring repair or calibration will be returned to the CDE determined location

4 8 4 3 Performance Requirements

The Contractor will disconnect service within performance requirements as specified by CDE, including, but not limited to the removal of meters within 2 days of determination of service

4 8 4 4 Controls

The Contractor will establish and maintain adequate control procedures for removing meters effectively and efficiently, including, but not limited to, the maintenance of a log identifying the location and reason of all meters removed

4 8 4 5 Reporting

The Contractor will provide a weekly, monthly and annual report by office, tariff type, zone, and other relevant information needs, as required by CDE, of all meters removed

4 8 5 Report Repairs of Distribution Lines to CDE

The Contractor will report all repairs to distribution lines it observes to be necessary, to the appropriate designated CDE location

4 8 5 1 Procedures

The Contractor will establish appropriate procedures and dedicate appropriate resources to effectively report on all distribution lines, from poles to meters, it observes to be in need of repair If a line is judged to be in need of repairs, the Contractor will complete the appropriate CDE form notifying the CDE of the location of required repair

4 8 5 2 Performance Requirements

The Contractor will report repairs of distribution lines to CDE within performance

requirements as specified by CDE, including, but not limited to the reporting of repairs within 2 days of observance

4 8 5 3 Controls

The Contractor will establish and maintain adequate control procedures for efficiently and effectively reporting repair to CDE, including, but not limited to the maintenance of a log identifying the date and location of all distribution lines observed to be in need of repair

4 8 5 4 Reporting

The Contractor will provide a weekly, monthly and annual report by office, tariff type, zone, and other relevant information needs, as required by CDE, of all lines reported to need repair

4 8 6 Maintain Controls

The Contractor will establish appropriate procedures and dedicate appropriate resources to effectively maintain controls for the efficient performance of this contract

4 8 6 1 Maintain a Log by Commercial Office of All Technical Activity

The Contractor will log all technical activity on a daily basis This log will be stored on an on-line computer system using a data base software that allows the sorting and report generation by field This log will include, but not be limited to, the following

- o Number of office
- o Date
- o Client number, address, account number, and meter number
- o Nature of service.
- o Staff member who performed the service

4 8 7 Provide Reports

The Contractor will establish appropriate procedures and dedicate appropriate resources in order to effectively produce a monthly activity report The Monthly Activity Report will include all technical activity performed by each Commercial

Office It will be provided to CDE on a monthly basis

4 8 7 1 Provide a Monthly Technical Activity Report

The Contractor will provide a report describing all technical activity performed in each Commercial Office At minimum this report will include

- Month
- Number of office
- Meters read/consumption estimated
- Meters installed
- Meters removed
- Meters sent to CDE
- Meters received from CDE
- Meters repaired
- Suspensions of service
- Re-connections of service
- Lines advised to require repairs
- Number of workers required during month
- Any additional office activity

4 9 Analyze Procedures

On a yearly basis, the Contractor will analyze all office activities and procedures

4 9 1 Analyze Current Operating Procedures and Make Recommendations for Improvement

The Contractor will analyze all office activities and procedures including billing and technical functions The analysis will focus on methods of

- Streamlining Operations
- Reducing Costs
- Improving Quality of Client Service
- Improving Internal and Quality Controls
- Improving Technology
- Expanding or Reducing the Number of Commercial Offices

4 9 2 Provide a Written Report of Recommendations

The Contractor will provide a detailed written report describing current procedures, its analysis, and recommendations for improvement The Contractor will provide the report each year on the anniversary of the signing of the contract

4 10 Provide Prosecution Support

The Contractor will provide the support required to prosecute civil and criminal actions in functional areas that the Contractor is responsible for

4 10 1 Provide Records and Testimony

The Contractor will produce, at the time and location requested by the CDE, all records, materials, and personnel necessary to support any litigation on behalf of or against the CDE

4 10 2 Provide Support to PMI Unit of CDE

The Contractor will support the CDE's (Revenue Improvement Program (Programa de Mejoramiento de Ingresos, PMI) unit, by providing information and logistic support as requested

4 11 Assistance and Support With Other CDE Programs

The Contractor will provide assistance and support to other CDE program as required including PNU, public relation programs, and other activities as developed from time to time

4 12 Assistance and Support with Other CDE Contractors

The Contractor will provide assistance and support to other CDE Contractors, as determined by CDE

5 Facilities and Equipment Not Provided By the CDE

The CDE will not provide the following facilities, equipment, and material in support of the Contractor's activities

5 1 Current Commercial Office Facilities

The CDE will not provide any commercial office facilities

5 2 Furniture, Equipment, Tools, Materials, or Supplies

The CDE will not provide any furniture, equipment, tools, materials or supplies of any nature

5 3 List of Current and New Clients

The CDE will provide the Contractor with a list of all current clients

5 4 Access to Current Billing and Collection System

The contractor must establish the appropriate systems in order to have the capability to download data from, and update information to, the current billing and collection system

5 5 Distribution Grid and Generation of Electricity

The CDE will maintain responsibility for the Distribution Grid and all power lines, substations, transformers, meters, and other equipment required to operate the power grid throughout the zone The CDE will provide all power to clients of the CDE The Contractor will not provide any electric power to the clients or potential clients of the CDE without prior written approval from the CDE

5 6 Planning for Expansion of Systems

The CDE will provide all planning for expansion of the generation, transmission, and distribution systems

6 Facilities, Equipment, and Personnel Provided by the Contractor

The Contractor will provide all facilities (including office space), equipment, materials, supplies, utility services, and personnel required to perform the functions and activities described in this solicitation

6 1 All Personnel

The Contractor will hire, train, and supervise all employees necessary to ensure high quality performance of all activities and functions required under this solicitation In

hiring personnel for activities performed under this solicitation, the Contractor will provide first preference to current employees of the CDE performing selected commercial activities in the Zone who meet the qualifications for respective positions

6 2 Computer Systems

The Contractor will provide (according to CDE standards) all computer hardware, software, printer, and peripheral and supporting equipment and materials required to perform the functions and activities described in the Solicitation All data used by the Contractor will be the property of the CDE All software will be owned by the Contractor, but will be licensed to the CDE and other appropriate contractors

6 3 Vehicles

The Contractor will provide all trucks, automobiles, motorcycles, and other motorized equipment required to perform the functions and activities under this solicitation

6 4 Materials and Supplies

The Contractor will provide all materials and supplies of any nature required to perform the functions and activities under this solicitations including

- o Forms
- o Invoices
- o Office Materials and Supplies
- o Technical Materials and Supplies
- o Other Supplies as Required

6 5 Equipment and Tools

The Contractor will provide all equipment and tools required to perform the functions and activities required in this solicitation including

- o Office Equipment
- o Telephones
- o Technical Equipment and Tools
- o Meter Installation Tools and Equipment
- o Meter Calibration Tools and Equipment
- o Such Other Tools and Equipment as Required

6 6 Insurance

The Contractor will carry personnel injury, liability and other insurance as required by the CDE The Contractor will provide insurance protecting all of its employees from injury, harm, or death resulting from use, misuse, or contact with CDE equipment whether or not the cause of the injury harm or death was the result of CDE or the Contractor's negligence

6 7 All Facilities

The Contractor will provide all facilities required to perform the functions required in this solicitation

6 7 1 Operations of Offices

The Contractor will provide all utilities (telephone, electricity, water, etc), cleaning, trash collection, security, and other services required for the smooth operations of the offices.

6 7 2 Receive Approval to Open or Close Offices

The Contractor must receive CDE's approval to open or close an office The Contractor will justify opening or closing offices based upon client demand To justify closing an office, the Contractor must provide a plan describing how the clients of the proposed office will be served

6 7 3 Payment of Rent

The Contractor will be responsible for purchasing or renting necessary facilities, and for making all payments under any purchase or rental agreement for all facilities required for completion of this contract

6 7 4 Use of Offices

The Contractor will only perform CDE activities in any office or building designated as a commercial office.

7 Basis of Contractor Overall Performance

The Contractor's overall performance on this contract will be judge by its ability to

meet the requirements stated in this solicitation Further, the Contractor will be evaluated on his ability to decrease client complaints regarding inaccurate bills Goals for each contract year will be set at the beginning of the contract year Failure to meet this performance goal, as computed by the CDE, in any year of the contract will be grounds for termination of the contract for cause The Contractor will be paid based on the number of bills generated and distributed, the number of meters installed, number of meters removed, number of connections and number of disconnections

8 CDE's Access to Operations

CDE reserves the right to access to all operating facilities and records of the Contractor During Regular Hours of Operations Additionally, CDE reserves the right to audit the Contractors operations as well as the members of any consortia

9 Rights in Data

CDE exclusively owns all data associated with the functions and activities performed by the Contractor The Contractor may not use the data for its own purposes or sell or provide the data to other parties without the written permission of the General Administrator of the CDE

10 Confidentiality of Information

All client account information and CDE operation information is extremely confidential The Contractor will take every measure to protect that confidentiality In no instance will the Contractor make that information known or available to anyone other than the Client or CDE without prior written approval of the Client or CDE

CORPORACION DOMINICANA DE ELECTRICIDAD

STATEMENT OF WORK - COLLECTIONS

1 Introduction

The Corporacion Dominicana de Electricidad (CDE) understands that electric energy is an essential primary source for the socio-economic development of the Dominican Republic The CDE is currently experiencing considerable technical and non-technical losses of electric power, which in turn affect the economic well-being of the nation In order to better the distribution of electric energy, the CDE believes that it is necessary for selected commercial aspects of CDE's operations to pass to the hands of the private sector, without any contrary effect on the service to its clients

1 1 Purpose of the Contract

The CDE believes that as a first step in decreasing the extent of the electric sector problem of the nation, it must contract out selected commercial functions This transfer of responsibility will increase CDE's efficiency and cash flow CDE has also determined that this transfer must occur in the least time possible, and that such transfer will better service and reduce technical and fraudulent losses

1 2 Role of Contractor

It is the purpose of this solicitation to transfer to the private sector, the responsibility for selected commercial aspects These selected commercial functions will include, but not be limited to, the following

1 2 1 Collection

Includes, but is not limited to, the following

- o Collect all revenues
- o Forward collection data to CDE and other Contractors
- o Accept all complaints, and report all inquiries to CDE and other Contractors
- o Coordinate appropriate reports with CDE and other Contractors
- o Maintains records for a period of seven years Must allow access to CDE at all times.

Only national companies or consortiums will be eligible for this solicitation The

contract will be for an initial period of three (3) years, with three option years exercised by the CDE

1 3 Relationship with Billing Contractor

The CDE has determined that a separate contract will be issued for the commercial functions associated with billing The separation of commercial duties between two contractors will inherently establish self-balancing controls and interdependence that will ensure that contractors would perform the functions efficiently and accurately Contractors bidding for the Collection aspects will not be allowed to bid on the Billing contract Exhibits I and II present the division of commercial functions between contractors

However, the Collections Contractor must establish a relationship with the Billing Contractor regarding the development, and implementation of the billing and collection systems, and of the interfaces necessary to fulfill contractual obligations The Billing Contractor will have the responsibility for developing the appropriate computer systems The Collection Contractor, however, will be responsible for the electronically transmitting (as defined by CDE), on a daily basis, the required data of all the transactions conducted during the day This tape will be forwarded to both the CDE and to the Billing contractor

2 Overview of CDE and the Dominican Regulatory Environment

The CDE is the sole entity responsible for the generation, transmission, and distribution of public electricity service in the Dominican Republic CDE is administered by a seven-member Board of Directors appointed by the Government The President of the Republic appoints the President of the Board and the General Administrator (CDE's Chief Executive Officer)

2 1 Organization of CDE

Responsibility for the functional, operational, and financial procedures is vested in the General Administrator The General Administrator delegates authority of all technical functions to the Technical Sub-Administrator, and all administrative and financial authority, including commercial functions, to the Administration and Finance Sub-Administrator

USAID/SANTO DOMINGO
CORPORACION DOMINICANA DE ELECTRICIDAD
CONTRACTING-OUT OF COMMERCIAL FUNCTIONS

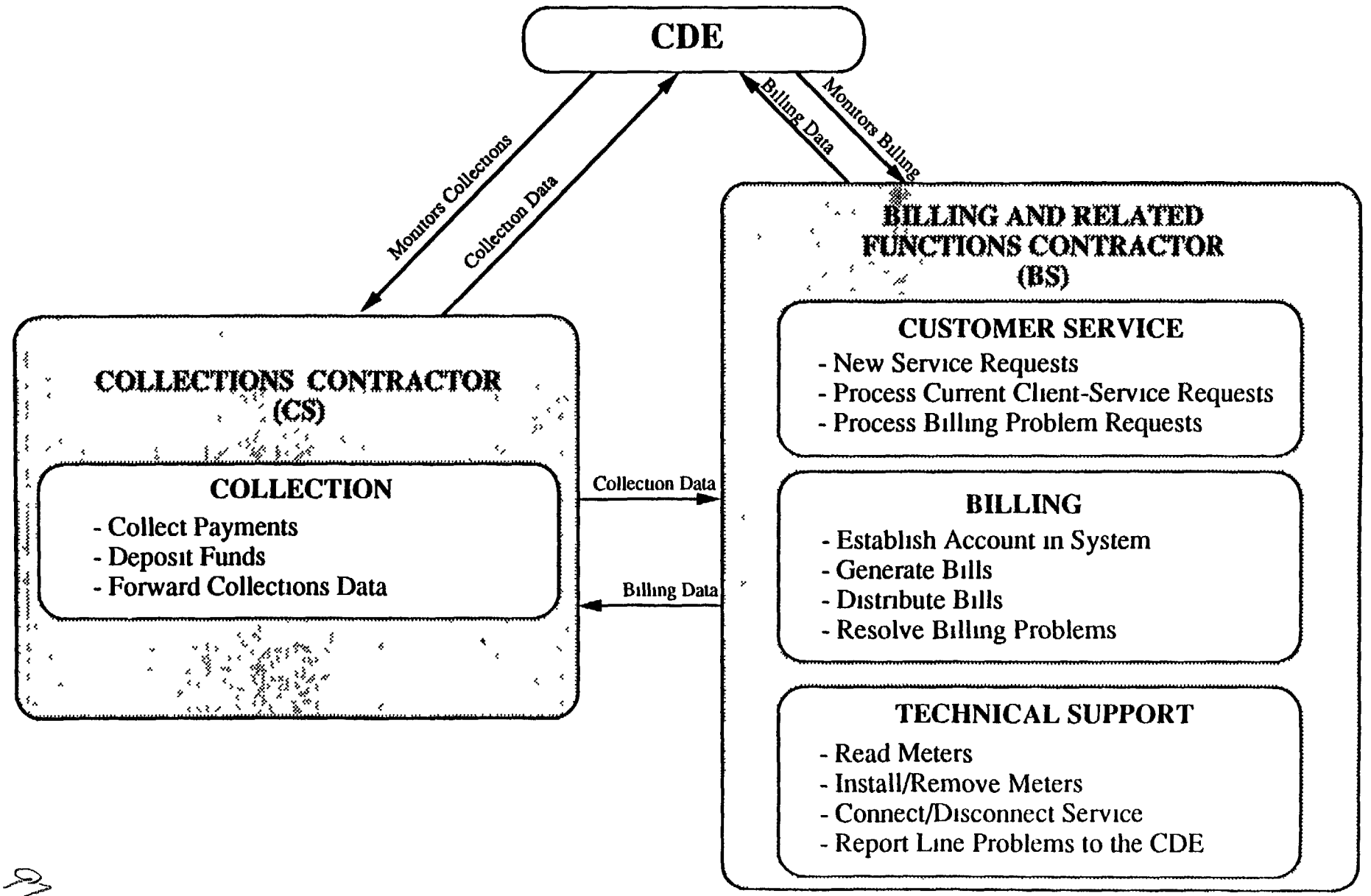

Exhibit I

CORPORACION DOMINICANA DE ELECTRICIDAD
WORK FLOW OF COMMERCIAL FUNCTIONS

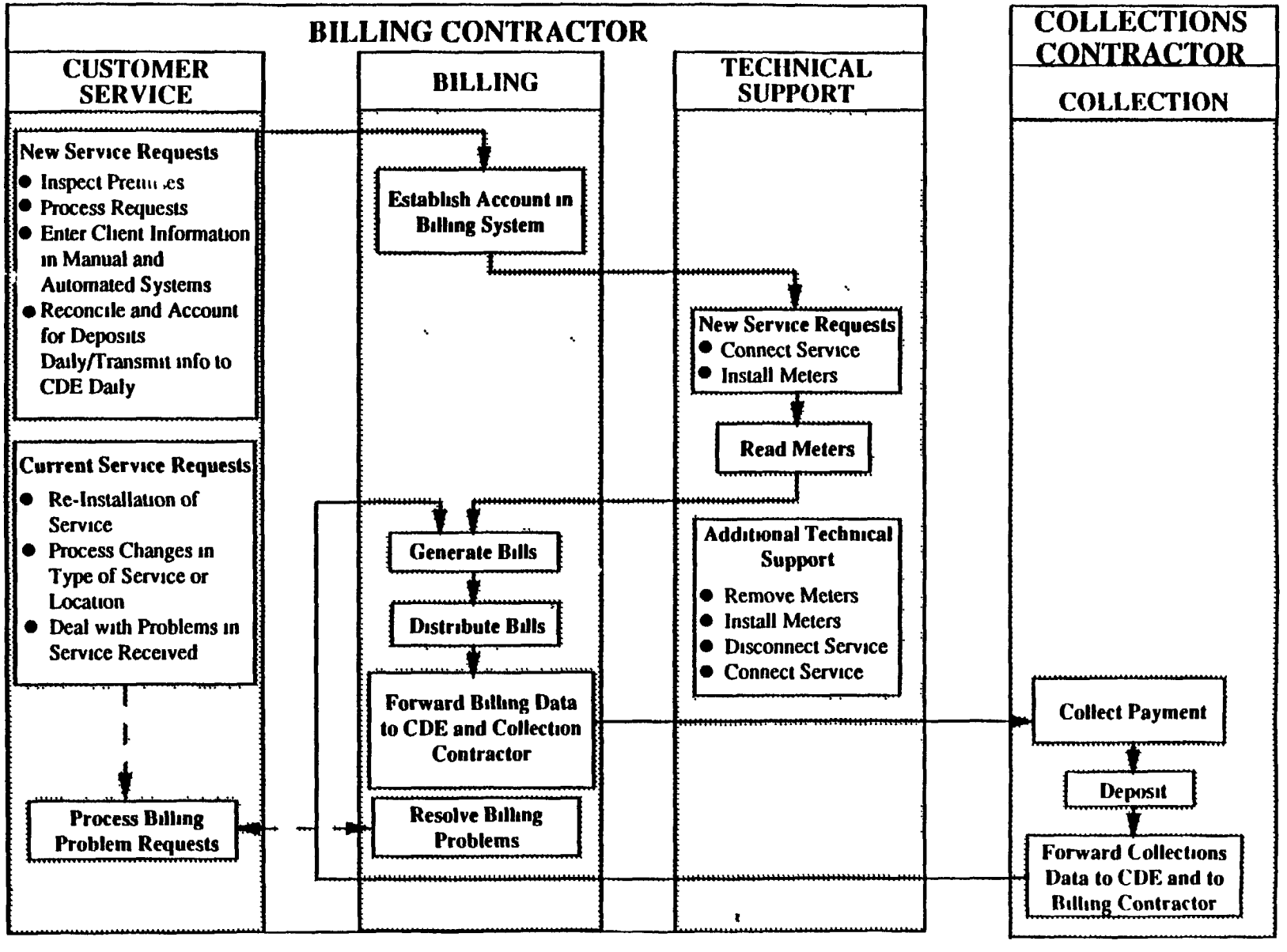

Exhibit II

Currently, the Commercial Director, who reports to the Administration and Finance Sub-Administrator, is responsible for all commercial activities The commercial activities are organized on a geographic basis with five zones existing throughout the country, including

- o National District
- o East Zone
- o South Zone
- o North Zone
- o Northeast Zone

Within a zone there are numerous Commercial Offices that perform the functions described in this solicitation

2 2 Regulatory Issues

The Contractor awarded this contract must act within the country's current regulatory structure, including

2 2 1 Law 14-90 - 1991

Law 14-90 outlines the role of the private sector in the generation, transmission, distribution and commercialization of electricity in the Dominican Republic The law permits the production and selling of electric energy to private national or foreign companies and establishes fiscal incentives for private investment in this area

2 2 2 DDRIE

The Directorio de Desarrollo y Reglamentacion de la Industria de la Energia Electrica (DDRIE) was created through Law 14-90 DDRIE is charged with the coordination and regulation of the electric energy industry in the country, including generation, transmission, and commercialization functions Additionally, it acts as executor and administrator of CDE's privatization politics

2 2 3 Other Laws

Any other such laws applying to the electrical industry

2 3 CDE Operational Statistics

The following are recent operational and financial statistics of the CDE

OPERATION	1990	1991[1]
Potential Generation Capacity (MW)	1300	1300
Actual Generation Capacity (MW)	460	630
Losses (% of generation)	32 50	34 99
Number of Legal Clients	[3]	593,975
Number of Illegal Users	600,000[2]	[3]
Amount of Generation Billed (RD$)	1,832,459	2,100,084
Amount Collected (RD$)	1,251,250	1,535,130

[1] Projected Based on May 1991 figures
[2] Estimated
[3] Not available

2 4 Growth Strategies Through 2005

Considering the projected growth in the country's future demand for electric service, the CDE has outlined a Plan of Generation Expansion (Plan) for the period 1991-2005, in order to meet anticipated energy requirements

2 4 1 Increase in Generation Capacity

The Plan aims to add to the current generating system a total of 14 new generation units, which will increase potential generating capacity from (an estimated) 1200 MW to 1668 MW. Additional generating systems will include

- o 6 hydroelectric units with a total of 293 MW capacity
- o 5 thermal units of 125 MW capacity each
- o 3 thermal units of 250 MW capacity each

2 4 2 Improvement of Transmission and Distribution

Inadequate financing levels have caused delays in the installation of needed facilities, an insufficient level of preventive maintenance, and lack of funds to purchase needed repair materials A significant deterioration of the transmission and distribution networks, due to the cumulative effects of inadequate maintenance, has resulted in significant deterioration of the transmission and distribution networks The Plan intends to improve distribution and transmission with World Bank and IDB funds currently available

2 4 3 Privatization Strategy

The CDE believes that the magnitude of the electric sector problems in the Dominican Republic will diminish only with the intervention of the private sector As a result, the CDE is considering four options for private sector involvement

- o Contracting out its distribution and commercial functions
- o Contracting out its support services, services which do not directly affect the primary functions of the CDE
- o Entering into joint ventures with private generation companies for generating systems
- o Privatization of generation, transmission, and distribution functions of the CDE

2 4 3 1 Privatization of Distribution Function

One alternative currently under consideration is the privatization of the distribution function This alternative would result in the formation of private distribution companies responsible for purchasing power, distributing power, and collection for power within a geographic region

3 Definitions

The following definitions will be used throughout this solicitation

gb

3 1 Contractor

The party awarded a contract under this solicitation and who will be responsible for the functions and activities that are described in this solicitation

3 2 Delegated Authority

The contractual obligation selected for the intervention of the Contractor The Contractor is responsible for the collection area of the commercial functions of the CDE

3 3 Control

Once control has been effected for these activities in the part of the Contractor, the CDE maintains the right to solicit the Contractor to proceed with other activities, proper to the commercial functions of the CDE

3 4 Scope of Work

The tasks entailed in this contract, to be the responsibility of the Contractor, include the collection of revenues billed for the electric consumption distributed to CDE clients in the designated zone(s) Also entailed are those tasks necessary for the efficient and automated execution of the responsibilities defined in this contract

3 5 Selected Commercial Activities

Those activities currently performed by CDE Commercial Officers as described in this solicitation generally including

- o Collection - The activity of compiling the payment of bills

3 6 Commercial Offices

An office which currently performs all the activities and functions described as selected commercial activities.

3 7 Collection Centers (Estafetas)

Collection centers (i e , pharmacies, banks, appliance stores, and convenience stores) which currently have contracts to collect payment for a monthly bill

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3 8 Hours of Operation

The hours of operation of all commercial offices will be

- o Monday through Friday, 8 00 AM to 6 00 PM
- o Saturdays, 8 00 AM to 12 00 PM

3 9 Zone Jurisdiction

The geographic area for which the Contractor will be responsible encompassing the _____ Region of the country including _____ Commercial Offices

3 10 Tariffs

The CDE has numerous Tariff categories with a range of tariffs within each category Appendix 1 provides a listing of current tariffs by category

3 11 Grid or Network

The transmission and distribution lines used for distributing electrical power to the clients

3 12 Client

The person(s) who legitimately receives electric service The end-user of electricity The client of CDE

4 Contractor Requirements

4 1 Overview

The selected Contractor will be responsible for performing all functions and activities described in this section of the solicitation, and for providing all facilities, personnel, equipment, tools, materials and supplies necessary to perform these functions and activities The Contractor will perform these tasks in a timely and accurate manner, in coordination with CDE and other contractors.

4 2 Manage Collection Functions

The Contractor will establish and operate commercial offices and related financial management systems, in the designated zone(s) of the Country and perform all activities required in this Solicitation The Contractor will establish a minimum number of service commercial offices sufficient to ensure adequate client service The Contractor may establish such other ancillary offices as it determines is necessary The Contractor will provide all resources required to operate these offices as described throughout this solicitation

4 3 List of Current and New Clients

The CDE will provide the Contractor with a list of current CDE and Programa de Nuevos Usuarios (PNU) clients in the zone, and such other information as is required to perform the activities in this solicitation The Contractor will be responsible for performing the required services for the entire client-base within the specified region

4 4 Develop Overall Quality Control and Internal Control Systems

The CDE is committed to providing its Clients with the highest quality service possible The Contractor will develop and implement quality control and internal control procedures, programs, and systems for all activities under this solicitation that will achieve the following objectives

- o Ensure financial records of CDE and Contractor reflect most current financial information and client account status
- o Ensure that services are performed correctly and accurately and that client service is performed at the highest possible levels
- o Prevent fraud, waste, and abuse
- o Ensure that all assets, particularly funds, equipment, and payment records are closely controlled
- o Prevent unauthorized access and use of service
- o Provide for validation, checks and audit trails

The Contractor will describe in its proposal all procedures, programs, and systems

that it will establish for quality and internal control of all functions and activities

4 5 Design, Develop, and Implement (providing all hardware, software, peripherals and equipment) an Automated Collection System to be Operated in all Commercial Offices

The Contractor will design, develop, and implement all processing systems necessary to provide accountability for clients' payments The Contractor will obtain and install the appropriate hardware configuration to provide for adequate processing capacity, in accordance with CDE requirements and standards This system must interface with the systems the CDE and the Billing and Technical Service Contractor use

However, the Collections Contractor must establish a relationship with the Billing Contractor regarding the development, and implementation of the billing and collection systems, and of the interfaces necessary to fulfill contractual obligations The Billing Contractor will have the responsibility for developing the appropriate computer systems The Collection Contractor, however, will be responsible for the electronically transmitting (as defined by CDE), on a daily basis, the required data of all the transactions conducted during the day This tape will be forwarded to both the CDE and to the Billing contractor

4 5 1 Define System Requirements Consistent with Current CDE Collection System Subject to CDE Approval

The Contractor will design and develop a collection system which meets, at all times, CDE's functional, control, and communication requirements These requirements include but are not limited to the items described below

4 5 1 1 Meet Processing Demand

Processing requirements include but are not limited to the items listed below

4 5 1 1 1 Meet Existing Demand

The Contractor's financial system will provide sufficient capacity to process the number of clients serviced. It is estimated that there are 1 3 million users of energy for the country as a whole Approximately 600,000 currently are registered clients

4 5 1 1 2 Meet Future Demand

The Contractor's system will require sufficient capacity to absorb significant increases in the client base resulting from expansion in the client base

4 5 1 1 3 Satisfy Requirements

The Contractor's system will meet the requirements as set forth by the CDE at all times

4 5 1 2 Provide Integrated System Which Allows Access to All Records From all Commercial Offices and Collection Centers Throughout the Region

To effectively and rapidly respond to client service needs through-out the country, the Contractor's system will allow for payment of bills and processing of client claims at any Contractor office within the region The Contractor's system will be able to forward to CDE and accept from CDE client account information for all CDE clients as necessary The Contractor's system access, and communication controls and procedures will adhere to CDE specifications

4 5 1 3 Provide Back-up Power Supplies--Down-time during Operating Hours

The Contractor will purchase and install adequate back-up power capabilities to ensure that collection systems will remain operational during business hours The Contractor will develop and implement adequate procedures to ensure that the collection system remains operational in case back-up power procedures fail

4 5 1 4 Develop Operational Procedures and Controls such as Daily Back-up of Records and Audit Trail Reports

The Contractor's collection systems will have standard data-entry, processing, audit trails and back-up controls and procedures to ensure proper accountability and safeguard of financial information

4 5 1 5 Provide Adequate Systems Security to Prevent Unauthorized Access or Use

The Contractor's system access and communication controls and procedures will adhere to CDE specifications in order to prevent unauthorized access or use

4 5 1 6 Provide On-line (real time) Interface Between CDE Systems and Contractor Systems

To process and transmit effectively and rapidly critical financial information, the Contractor's system will allow for on-line communication with CDE's billing and collection systems, and other contractor's billing and collections systems The Contractor's system access, internal audit, and communication controls and procedures will adhere to CDE specifications Additionally, the Contractor will develop and implement adequate procedures to ensure that the communication between the Contractor and CDE collection system, and other contractor's system, remains functional

4 5 1 7 Transmit Data Electronically to CDE Systems According to Current CDE System Requirements

The Contractor's system will provide for electronic communication with CDE's collection system, and other contractor's billing systems On a daily basis, the Contractor's system will electronically update CDE's collection system The Contractor's system access, internal audit, and communication controls and procedures will adhere to CDE specifications The Contractor will develop and implement adequate procedures in case electronic data transfer capabilities are down in order to ensure that collection systems remain consistent and on schedule

4 5 1 8 Modify System as Required to meet Changing CDE Needs and Systems Requirements

CDE's requirements will change as a result of various expansion, rehabilitation, and privatization programs Enhancements to the Contractor's systems will be implemented as necessary to meet the CDE's changing demands and needs

4 5 2 Develop Implementation Plan and Schedule and Implement System

The Contractor will develop an implementation plan for the adequate design, development, installation, testing, and implementation of the Contractor's collection system, and proper interface with CDE billing, collection and accounting systems, and other contractor's systems. The implementation plan is subject to CDE requirements including, but not limited to, the items listed below·

- o Implementation plan will include development process schedule and deliverable definition.

- o Implementation plan must provide adequate time to test that the system meets requirements

- o Implementation plan is subject to CDE approval

- o The Contractor will allow for adequate participation and interim approval by CDE

4 6 Collect Payments

The Contractor will establish appropriate procedures and dedicate adequate resources to effectively collect on client billings

4 6 1 Procedures

The Contractor will establish procedures for timely and accurate collection of client billings Minimum procedures for processing clients bills include, but are not limited to, those listed below

4 6 1 1 Collections at Identified Location

The Contractor will receive payments from clients at the identified locations during standard hours of operations (see Definitions) Minimum procedures for collecting and accounting for such receipts include, but are not limited to, the following areas

- o Verifying that payment received covers balance due See Section 4 6 6 for procedures to follow when amounts paid do not cover balance due

- o Crediting collections to appropriate client accounts

- o Reconciling funds received and deposited with client receipts and credits posted to accounts.

- o Issuing receipt to Client

4 6 1.2 Collection at Collection Centers (Estafetas)

The Contractor will collect and account, on a daily basis, for funds collected through the Collection Centers Minimum procedures for collecting and accounting for such receipts include, but are not limited to, the following areas

- Collecting appropriate funds, receipts to clients, and other supporting documentation from Collection Centers.

- If Collection Center is a bank, Collection Center will be responsible for depositing or wiring funds to the correct CDE bank account In this case, the Contractor need only collect supporting deposit, client account, and other documentation

- At time of collection, reconcile all records of funds received

- Approve reconciliation and funds received from Collection Centers prior to entering data into system

- Credit collections to appropriate client accounts

- Update collections in the Billing and Collection system

4 6 1 3 Deposit Funds

The Contractor will deposit all funds to the appropriate CDE accounts on a daily basis, as directed by CDE's controller

4 6 1 4 Reconciliation

The Contractor will reconcile all funds received and deposited with client receipts and credits posted to accounts on a daily basis to ensure the complete and proper accounting for all receipts

4 6 2 Performance Requirements

The Contractor will operate collection procedures within performance requirements as specified by CDE, including, but not limited to, the following items.

- Allow 15 days for clients to pay balance

- Credit payments to client accounts on the day payment is received

- Deposit funds in CDE bank accounts on the day payment is received

- Reconcile all receipts and deposits on a daily basis.

4 6 3 Controls

The Contractor will establish and maintain adequate control procedures for the collection process, including, but not limited to,the following areas

- o Complete accounting for receipt of all payments
- o Correct and complete entry/credit of payments to client accounts

4 6 4 Reporting

The Contractor will provide daily, weekly, monthly, and annual deposit and collection reports by office, tariff category, zone, and other information needs as required by CDE

4 7 Provide Security

The Contractor will establish and provide sufficient security measures and resources to adequately safeguard all CDE property and monies for which the Contractor is responsible, including, but not limited to, the following items

- o Security service for all offices
- o Security service for pick-up of Collection Center receipts and delivery of deposits to banks
- o Security service delivery of all Collection Center deposits

4 8 Insurance

The Contractor will acquire sufficient insurance to protect the CDE from any and all theft of funds and assets for which the Contractor is responsible

4 9 Analyze Procedures

On a yearly basis, the Contractor will analyze all Commercial Office activities and procedures

4 9 1 Analyze Current Operating Procedures and Make Recommendations for Improvement

The Contractor will analyze all Commercial Office activities and procedures including billing, collection and technical functions The analysis will focus on methods of

- o Streamlining Operations
- o Reducing Costs
- o Improving Quality of Client Service
- o Improving Internal and Quality Controls
- o Improving Technology
- o Expanding or Reducing the Number of Commercial Offices

4 9 2 Provide a Written Report of Recommendations

The Contractor will provide a detailed written report describing current procedures, its analysis, and recommendations for improvement The Contractor will provide the report each year on the anniversary of the signing of the contract

4 10 Provide Prosecution Support

The Contractor will provide the support required to prosecute civil and criminal actions in functional areas for which the Contractor is responsible

4 10 1 Provide Records and Testimony

The Contractor will produce, at the time and location requested by the CDE, all records, materials, and personnel necessary to support any litigation on behalf of or against the CDE.

4 10 2 Provide Support to PMI Unit of CDE

The Contractor will support the CDE's PMI unit, by providing information and logistic support as requested

4 11 Assistance and Support With Other CDE Programs

The Contractor will provide assistance and support to other CDE programs as required including PNU, public relation programs, and other activities as developed from time to time

4 12 Provide Coordination Support to Other Contractors as Needed

The Contractor will provide coordination support to other contractors as needed Particularly any contractors holding billing or technical service contracts

5 Facilities and Equipment Not Provided By the CDE

The CDE will not provide the following facilities, equipment, and material in support of the Contractor's activities

5 1 Current Commercial Office Facilities

The CDE will not provide any commercial office facilities

5 2 Furniture, Equipment, Tools, Materials, or Supplies

The CDE will not provide any furniture, equipment, tools, materials or supplies of any nature

5 3 List of Current and New Clients

The CDE will provide the Contractor with a list of all current clients As clients sign-up for the Contractor's service, CDE will provide copies of those account records necessary to service the account

5 4 Distribution Grid and Generation of Electricity

The CDE will maintain responsibility for the Distribution Grid and all power lines, substations, transformers, meters, and other equipment required to operate the power grid throughout the zone The CDE will provide all power to clients of the CDE The Contractor will not provide any electric power to the clients or potential clients of the CDE without prior written approval from the CDE

5 5 Planning for Expansion of Systems

The CDE will provide all planning for the expansion of the generation, transmission, and distribution systems

6 Facilities, Equipment, and Personnel Provided by the Contractor

The Contractor will provide all facilities (including office space), equipment, materials, supplies, utility services, and personnel required to perform the functions and activities described in this solicitation

6 1 All Personnel

The Contractor will hire, train, and supervise all employees necessary to ensure high quality performance of all activities and functions required under this solicitation In hiring personnel for activities performed under this solicitation, the Contractor will provide first preference to current employees of the CDE performing selected commercial activities in the Zone who meet the qualifications for respective positions

6 2 Computer Systems

The Contractor will provide (according to CDE requirements) all computer hardware, software, printer, and peripheral and supporting equipment and materials required to perform the functions and activities described in the Solicitation All data used by the Contractor will be the property of the CDE

6 3 Vehicles

The Contractor will provide all trucks, automobiles, motorcycles, and other motorized equipment required to perform the functions and activities under this solicitation

6 4 Materials and Supplies

The Contractor will provide all materials and supplies of any nature required to perform the functions and activities under this solicitations including

- o Forms
- o Invoices
- o Office Materials and Supplies
- o Technical Materials and Supplies
- o Other Supplies as Required

6 5 Equipment and Tools

The Contractor will provide all equipment and tools required to perform the functions and activities required in this solicitation including

- o Office Equipment
- o Telephones
- o Technical Equipment and Tools
- o Meter Installation Tools and Equipment
- o Meter Calibration Tools and Equipment
- o Such Other Tools and Equipment as Required

6 6 Insurance

The Contractor will carry personnel injury, liability and other insurance as required by the CDE The Contractor will provide insurance protecting all of its employees from injury, harm, or death resulting from use, misuse, or contact with CDE equipment whether or not the cause of the injury harm or death was the result of CDE or the Contractor's negligence

6 7 All Facilities

The Contractor will provide all facilities required to perform the functions required in this solicitation

6 7 1 Operations of Offices

The Contractor will provide all utilities (telephone, electricity, water, etc), cleaning, trash collection, security, and other services required for the smooth operations of the

offices

6 7 2 Receive Approval to Open or Close Offices

The Contractor must receive CDE's approval to open or close an office The Contractor will justify opening or closing offices based upon client demand To justify closing an office, the Contractor must provide a plan describing how the clients of the proposed office will be served

6 7 3 Payment of Rent

The Contractor will be responsible for purchasing or renting necessary facilities, and for making all payments under any purchase or rental agreement for all facilities required for completion of this contract

6 7 4 Use of Offices

The Contractor will only perform CDE activities in any office or building designated as a commercial office

7 Basis of Contractor Overall Performance

The Contractor's overall performance on this contract will be judged by its ability to meet the requirements stated in this solicitation Further, the Contractor will be evaluated on its ability to increase the amount collected as a percentage of the amount billed (RD$ collected per hour) Goals for each contract year will be set at the beginning of the contract year Failure to meet this performance goal, as computed by the CDE, in any year of the contract will be grounds for termination of the contract for cause

8 CDE's Access to Operations

CDE reserves the right to access all operating facilities and records of the Contractor During Regular Hours of Operations Additionally, CDE reserves the right to audit the Contractors operations as well as the members of any consortia

9 Rights in Data

CDE exclusively owns all data associated with the functions and activities performed by the Contractor The Contractor may not use the data for its own purposes or sell

or provide the data to other parties without the written permission of the General Administrator of the CDE

10 Confidentiality of Information

All client account information and CDE operation information is extremely confidential The Contractor will take every measure to protect that confidentiality In no instance will the Contractor make that information known or available to anyone other than the Client or CDE without prior written approval of the Client or CDE