



Republic of the Philippines
NATIONAL ELECTRIFICATION ADMINISTRATION
Quezon City

NEA MEMORANDUM No. 2004-005

June 30, 2004

MEMORANDUM

TO : ALL ELECTRIC COOPERATIVES

SUBJECT : Promoting Investment Management Contracts (IMC) as One Measure in Effecting Greater Private Sector Participation in the Management and Operation of Rural Electric Cooperatives Pursuant to Section 37 of Republic Act No. 9136 and its Implementing Rules and Regulations

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The DOE thru Department Circular No. DC 2004-06-007 dated June 18, 2004 promulgated the Guidelines to promote private sector partnership and participation in the operations of rural electric cooperatives toward sustainable financial viability, enhanced ECs access to private capital, and to improve services to electricity end users.

The essential features of the IMC are as follows:

- a. The EC remains the duly authorized distribution utility, hence, members of the EC, through the EC Board, shall continue to exercise the rights and responsibilities under its franchise. It shall continue to be regulated by the ERC.
- b. The EC will continue to function and act through its board, which shall retain critical residual powers under the IMC, such as, but not limited to:
 - (i) monitoring performance of the investor-operator to ensure compliance with agreed performance standards and deliverables; and
 - (ii) working with the investor-operator to approve and implement an investment program consistent with achieving on-going compliance with the Distribution Code.

- c. The EC will retain ownership of and strategic control of its assets, as well as control over setting the standards of service to its customers.
- d. To ensure that the EC is adequately protected and reasonably assured of sustainable recovery, the investor operator will only obtain a return on investment and so remunerated where system loss reduction is achieved and costs are considerably decreased through an equitable profit sharing and or lease option scheme.

The DOE has appointed a Transaction Advisor, Castalia, to ensure that the IMC is successfully implemented in qualified ECs. The participation of the Transaction Advisor, which acts as an honest broker between the EC and the private sector investor/operator, is to ensure that a transparent and competitive bidding process is undertaken to tailor the IMC to the needs of participating ECs and to match a suitable investor/operator with an EC.

ECs are thus encouraged to consider the IMC, and in doing so, to further avail themselves of Castalia's assistance, as DOE Transaction Advisor, and undergo the DOE endorsed IMC process administered by Castalia.

ECs are further invited to enter into a Memorandum of Agreement with the DOE and NEA, which sets out the terms and conditions of process which shall be followed in qualifying the EC and facilitating the IMC transaction with the private sector investor/operator.

For your information and guidance.


EDITA S. BUENO
Administrator

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IN REPLYING, P.C. # 0005113



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