



Republic of the Philippines  
**National Electrification Administration**

29 June 2006

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NEA MEMORANDUM No. 2006-017

**TO : ALL ELECTRIC COOPERATIVES (ECs)**

**SUBJECT : Revised Liberalization Scheme on ECs' Cash Operating Budget (COB)**

### **I. BACKGROUND**

In 1996, NEA implemented the Liberalization Scheme on ECs' COB. This is in recognition of the ECs' sustained track record of financial viability as shown by its consistent Category A and/or A+ for the past years.

These ECs were given autonomy in their financial management and have the sole responsibility in the preparation, approval and execution of their COBs, including supplemental budgets.

### **II. RATIONALE**

Pursuant to Section 58 of the R.A. No. 9136, otherwise known as the Electricity Power Industry Reform Act of 2001, NEA was mandated to develop and implement programs to strengthen ECs' financial viability. Moreover, the ECs are demanded to be competitive in the deregulated electricity environment. Thus, there is a need to review and amend the policy on Liberalization Scheme on ECs' COB with the end view of reflecting true costs recoverable from the consumers and likewise attain operational efficiency.

### **III. GUIDELINES AND PROCEDURES**

While liberalized ECs, those categorized as A or A+ for the last two (2) consecutive years, were given autonomy in the preparation, approval and execution of annual COBs the following specific guidelines should be strictly adhered to:

1. Procurement of fixed assets, equipment and materials and other capital expenditure items should be in accordance with the EC approved/updated Integrated Computerized Planning Model (ICPM) and prescribed procurement guidelines and procedures. Likewise, EC shall prepare and furnish NEA the annual procurement plan based on the ICPM for reference and guidance. Finally, actual procurement shall be subject to validation by NEA from time to time;
2. Quarterly amortization payments for all NEA loans should be current;

3. Debt servicing for loans contracted from other sources should be provided;
4. Salaries, allowances and other benefits, travel and board meeting per diems should be maintained at the rates prescribed under NEA memoranda or specific approval. Any upward adjustment should be covered by a resolution passed by the duly convened General Assembly. Moreover, Memorandum to ECs on Collective Bargaining Agreement (CBA) and Collective Negotiations Agreement (CAN) issued on September 30, 2003 and February 04, 2005 should be strictly complied to avoid occurrence of unnecessary labor disputes;
5. Sinking fund for reinvestment should be set aside and utilized in accordance with NEA Memo dated 19 July 1993 and ERC En Banc Resolution No. 05, Series of 2005;
6. Sinking fund for retirement benefits should be set aside and utilized in accordance with EC policy/guidelines established for the purpose and as approved by NEA;
7. Membership fund should be intact;
8. Cash balance as of year-end should be sufficient for one month non-power cost;
9. Realignment of all budgetary items is allowed except for the provision for payments to NEA, power suppliers and EC counterpart on approved/updated ICPM;
10. The incentive shall be automatically withdrawn:
  - a. Upon the EC's failure to maintain minimum level of Category A status and shall be restored only one (1) year after regaining an A or A+ status;
  - b. If there is a violation of any of the guidelines issued by NEA particularly but not limited to issuances on salaries and wages, per diems and all other allowances;
  - c. Upon failure of the EC to remit to PSALM the collected Universal Charges (UC) for three (3) consecutive months;
11. Liberalized ECs shall submit annual COB as approved by the Board of Directors on or before November 30 preceding the budget year for advisory and monitoring. Non-liberalized ECs shall submit annual COB as approved by the BOD on or before September 30 preceding the budget year for approval. Realignment and supplemental COB shall be submitted to NEA not later than December of the budget year for appropriate action.

#### **IV. RESPONSIBILITY OF THE EC BOARD**

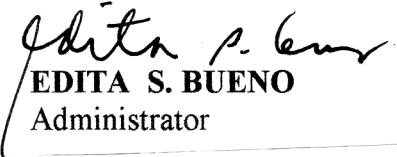
The EC Board is encouraged to actively participate in the deliberation and approval of the annual COB. The effective implementation of all programs and projects of the EC which will redound to the best interest of the member-consumers shall be the primary consideration in the approval of the annual COB.

#### **V. REPEALING CLAUSE**

All NEA issuances inconsistent with this memorandum are hereby repealed or modified accordingly.

#### **VI. EFFECTIVITY**

This revised liberalization scheme shall take effect starting CY 2007 budget preparation.

  
**EDITA S. BUENO**  
Administrator

NATIONAL ELECTRIFICATION  
ADMINISTRATION

IN REPLYING, PLS. ITR: #0A00BB30



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