



Republic of the Philippines
National Electrification Administration

26 July 2006

NEA MEMORANDUM No. 2006-021

TO : ALL ELECTRIC COOPERATIVES

**SUBJECT : SCORECARD ON CORPORATE GOVERNANCE
FOR ELECTRIC COOPERATIVES (ECs)**

The Scorecard on Corporate Governance (SCG) is a tool to assess the overall performance or health profile of ECs at all levels, and identify their strengths and weaknesses in order to improve their ability to face stiff competition in the restructured power industry. Enclosed is mechanics of the SCG.

The performance measures by which ECs are to be assessed are the financial, technical, institutional and information technology perspectives. The institutional perspective has a new dimension, and that is the critical role of the Board of Directors. Its sound and effective governance shall be measured by its ability to ensure that the EC attains institutional stability, financial viability and technical efficiency through its corporate decisions and required management actions.

The major bases of measuring ECs performance are the progress made in achieving the targets set in the ICPM, and the primary data that will be collected through a set of Questionnaires as well as the Cross Validation on EC information and services that shall be done by NEA. As feedback mechanism, the result of the SCG shall be sent to the ECs as a guide in instituting corrective measures to improve operation. The same results shall be used in the overall performance evaluation of ECs.

The Scorecard on Corporate Governance shall take effect immediately, and shall be undertaken on a semestral basis, beginning the second half of this year for selected ECs, and for all ECs next year, 2007.

The ECs are enjoined to participate and fully comply with the requirements of the SCG to truly reflect their overall performance.


EDITA S. BUENO
Administrator

NATIONAL ELECTRIFICATION
ADMINISTRATION
IN REPLYING, PLS. CITE: #0R008983



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SCORECARD ON CORPORATE GOVERNANCE FOR ECs

I. BACKGROUND

Corporate governance has emerged as the key element defining the character of corporations and determining their performance. It deals with the manner by which firms are directed and controlled and by which accountability and transparency for corporate decisions and management actions are established.

Given that corporate governance impacts on performance, in the measurement of ECs performance, it is necessary to find out critical factors that contribute to their performance. In the past, the monitoring or assessment of ECs performance was based on identified nine (9) Key Performance Indicators (KPI). However, this may not be enough to assess the overall strengths and weaknesses of ECs since there are other vital areas of concerns or perspectives which were not measured (i.e. customer perspective as well as internal perspective).

In this regard, a new mechanism is hereby adopted in the monitoring and assessment of ECs performance through the Scorecard on Corporate Governance for Electric Cooperatives (SCG).

II. OBJECTIVE

The Scorecard shall be used as a tool to assess the overall performance or health profile of ECs at all levels and identify strengths and weaknesses in order to improve their ability to compete in the deregulated environment.

III. METHODOLOGY

- A. Identify/establish performance measure/area by which ECs are to be monitored. Each performance measure/area has an assigned weight (in %) depending on its importance. The basis of measuring ECs performance is on the progress made in achieving the targets set in their ICPM.
- B. Review of secondary data like the MFSR, Audit Report and MER. Result of KPI shall be determined using the MFSR as the source document.
- C. Develop Survey Questionnaire to collect primary data. There will be three sets of Questionnaire for: ICPM Institutional Activities, ICPM Technical Activities, and Information Technology.
- D. Send the Questionnaire to 71 ECs (AMGD) and 47 ECs (MAG).

- E. Cross validation on EC information and services shall be done by NEA through community groups such as the Multi-Sectoral Electrification Advisory Council (MSEAC), composed of representatives who are member-consumers of ECs, among others.
- F. The returned Questionnaires, results of KPIs and cross validation will be given scores and analyzed to identify ECs strengths and weaknesses.
- G. As feedback mechanism, the SCG shall be sent to the ECs for them to institute corrective measures to improve operation.

IV. AREAS OF PERFORMANCE ASSESSMENT

A. Financial Perspective	<u>30%</u>
Ave. Days Receivable	8%
Net Margin	6%
Non Power Cost / Customer	5%
Payment to National Electrification Administration	5%
Payment to GENCO	4%
Payment to National Transmission Corporation	2%
B. Technical Perspective	<u>30%</u>
System Loss Reduction	10%
System Loss Segregation	5%
Reliability	5%
Project Implementation	5%
Power Quality	3%
Power Factor	2%
C. Institutional Perspective and Information Technology	<u>40%</u>
Corporate Governance	10%
Human Resource Development	6%
Member-Consumer Development	6%
Image Building Activities	4%
District Election	2%
Annual General Membership Assembly	2%
Information Systems/Systems Applications	3%
Operational Website	2%
Inter-Connectivity/Internet Access	2%
Information Communication Technology Planning	2%
Video and Audio Conferencing Facility	1%
Other ICT Innovations	Bonus
TOTAL	<u>100%</u>

V. OVERALL RATING PERFORMANCE

Total Scores	Adjectival Rating
90 – 100%	- Outstanding (5 ☆ ☆ ☆ ☆ ☆)
75 – 89 %	- Very Satisfactory (4 ☆ ☆ ☆ ☆)
60 – 74%	- Satisfactory (3 ☆ ☆ ☆)
50 - 59%	- Fair
49 below	- Poor

VI. FREQUENCY OF ASSESSMENT

The performance assessment shall be conducted on a semestral basis to start this year.