



NATIONAL ELECTRIFICATION ADMINISTRATION
"The 1st Performance Governance System-Institutionalized National Government Agency"
57 NIA Road, Government Center, Diliman, Quezon City 1100

30 April 2014

MEMORANDUM No. 2014-012

TO : ALL ELECTRIC COOPERATIVES (ECs)

SUBJECT : Policy for the Establishment of a Sinking Fund to Cover Extraordinary Losses and Expenditures Arising from Force Majeure, Natural Calamities and Risk Factors

This is to provide you with the Policy for the Establishment of a Sinking Fund to Cover Extraordinary Losses and Expenditures Arising from Force Majeure, Natural Calamities and Risk Factors.

This policy was published for national circulation in the Philippine Star on April 25, 2014 and will take effect on May 10, 2014.

For your information and guidance.


EDITA S. BUENO
Administrator



NEA-OA205276

92
4/30/14



**POLICY FOR THE ESTABLISHMENT OF A SINKING FUND TO COVER
EXTRAORDINARY LOSSES AND EXPENDITURES ARISING FROM FORCE
MAJEURE, NATURAL CALAMITIES AND RISK FACTORS**

I. RATIONALE

Section 5 of RA 10531 mandates the National Electrification Administration (NEA) to strengthen the electric cooperatives, help them become economically viable and prepare them for the implementation of retail competition and open access.

Under Section 5 (j) of RA 10531, the NEA is authorized and empowered to ensure the economic and financial viability of the electric cooperatives (ECs).

II. BACKGROUND

Under the Rules for Setting the Electric Cooperatives' Wheeling Rates (RSEC-WR), there is no provision for extraordinary losses and expenditures arising from force majeure, natural calamities and other risk factors.

Under the erstwhile cash flow rate setting methodology, the reinvestment fund, the precursor of the Members' Contribution for Capital Expenditures (MCC), which was renamed Reinvestment Fund for Sustainable Capital Expenditures (RFSC) in Energy Regulation Commission (ERC) Resolution No 14, Series of 2011, stood as the single revenue requirement component, which was exclusively provided to the ECs. The provision for reinvestment fund was a mechanism, which was designed to oblige member-consumers to shoulder part of the capital expenditures. However, the collections from the RFSC shall be used only for capital expenditure or for any other purpose approved by the ERC and not for any other purpose even on temporary basis.

The government has been providing subsidies and financial assistance to ECs, which incurred extraordinary losses and expenditures arising from force majeure, natural calamities and other risk factors. Considering, however, the magnitude of the financial outlays, the ECs should endeavor to augment the government subsidies from their unappropriated margins.

The accumulated margins of concerned ECs can be utilized to cover extraordinary losses and expenditures arising from force majeure, natural calamities and other risk factors.

III. OBJECTIVE

To authorize the ECs to establish a sinking fund from a certain percentage of their accumulated margins to cover extraordinary losses and expenditures arising from force majeure, natural calamities and risk factors.

IV. GUIDELINES

1. If the EC has accumulated margin, it shall transfer a certain amount thereof to appropriated margin for extraordinary losses;
2. In the determination of the amount of the Sinking Fund, the historical data on the losses and damages to the utility assets of the EC arising from natural calamities, such as typhoons and floods for the last five (5) years shall be used as a reference;
3. The appropriated margin for extraordinary losses shall be deposited to a restricted sinking fund account;
4. The Sinking Fund or a portion thereof maybe placed in high yielding short term deposits which can be pre terminated at anytime and the interest income thereon shall form part of the Sinking Fund;
5. The disbursements from the sinking fund and the recognition of expenses shall be through normal disbursement and work order procedures;
6. The Sinking Fund shall be solely utilized for extraordinary losses and expenditures arising from force majeure, natural calamities and other risk factors; and,
7. In the event that a provision for extraordinary losses is imputed in the tariff, the same shall be treated as part of revenue.

V. ACCOUNTING TREATMENT OF THE SINKING FUND

1. To set-up an appropriated margin for extraordinary losses.

Debit: 212-218-00 Unappropriated Margins	XXX
Credit: 212-215-10 Appropriated Margins-Extraordinary losses	XXX

2. To set-up a Sinking Fund for Extraordinary losses.


Debit: 120-125-40 Restricted Fund-Extraordinary Losses	XXX
Credit: 130-131-10 Cash General Fund	XXX

3. To effect disbursements for extraordinary expenses.

Debit: 462-430-00 Extraordinary Expenses-Calamities	XXX
Credit: 120-125-40 Restricted Funds-Extraordinary Losses	XXX

VI. EFFECTIVITY

This policy shall immediately take effect fifteen days following its publication in a newspaper of general circulation. Three (3) copies shall be filed with the University of the Philippines (UP) Law Center pursuant to the Presidential Memorandum Circular No. 11, dated October 9, 1992.


EDITA S. BUENO
Administrator



- Approved by the NEA Board of Administrators through Board Resolution No. 55 in its meeting on April 4, 2014.



NATIONAL ELECTRIFICATION ADMINISTRATION
 "The 1st Performance Governance System-Internationalized National Government Agency"
 87 MA Road, Government Center, Quezon City 1100

**POLICY FOR THE ESTABLISHMENT OF A SINKING FUND TO COVER
 EXTRAORDINARY LOSSES AND EXPENDITURES ARISING FROM FORCE
 MAJEURE, NATURAL CALAMITIES AND RISK FACTORS**

I. RATIONALE

Section 4 of RA 10531 mandates the National Electrification Administration (NEA) to strengthen the electric cooperatives, help them become economically viable and prepare them for the implementation of retail competition and open access.

Under Section 5 (j) of RA 10531, the NEA is authorized and empowered to ensure the economic and financial viability of the electric cooperatives (ECs).

II. BACKGROUND

Under the Rules for Setting the Electric Cooperatives Whodling Rates (RSBC-WR), there is no provision for extraordinary losses and expenditures arising from force majeure, natural calamities and other risk factors.

Under the erstwhile cash flow rate setting methodology, the reinvestment fund, the precursor of the Members' Contribution for Capital Expenditures (MCC), which was renamed Reinvestment Fund for Sustainable Capital Expenditures (RPSC) in Energy Regulation Commission (ERC) Resolution No. 14, Series of 2011, stood as the single revenue requirement component, which was exclusively provided to the ECs. The provision for reinvestment fund was a mechanism, which was designed to oblige member-consumers to shoulder part of the capital expenditures. However, the collections from the RPSC shall be used only for capital expenditure or for any other purpose approved by the ERC and not for any other purpose even on temporary basis.

The government has been providing subsidies and financial assistance to ECs, which incurred extraordinary losses and expenditures arising from force majeure, natural calamities and other risk factors. Considering, however, the magnitude of the financial outlays, the ECs should endeavor to augment the government subsidies from their unappropriated margins.

The accumulated margin of concerned ECs can be utilized to cover extraordinary losses and expenditures arising from force majeure, natural calamities and other risk factors.

III. OBJECTIVE

To authorize the ECs to establish a sinking fund from a certain percentage of their accumulated margin to cover extraordinary losses and expenditures arising from force majeure, natural calamities and risk factors.

IV. GUIDELINES

1. If the EC has accumulated margin, it shall transfer a certain amount thereof to appropriated margin for extraordinary losses;
2. In the determination of the amount of the Sinking Fund, the historical data on the losses and damages to the utility assets of the EC arising from natural calamities, such as typhoons and floods for the last five (5) years shall be used as a reference;
3. The appropriated margin for extraordinary losses shall be deposited to a restricted sinking fund account;
4. The Sinking Fund or a portion thereof maybe placed in high yielding short term deposits which can be pre-terminated at anytime and the interest income thereon shall form part of the Sinking Fund;
5. The disbursements from the sinking fund and the recognition of expenses shall be through normal disbursement and work order procedures;
6. The Sinking Fund shall be solely utilized for extraordinary losses and expenditures arising from force majeure, natural calamities and other risk factors; and,
7. In the event that a provision for extraordinary losses is imputed in the tariff, the same shall be treated as part of revenue.

V. ACCOUNTING TREATMENT OF THE SINKING FUND

1. To set-up an appropriated margin for extraordinary losses.

Debit: 212-218-00 Unappropriated Margins	XXX	
Credit: 212-215-10 Appropriated Margins-Extraordinary losses		XXX
2. To set-up a Sinking Fund for Extraordinary losses.

Debit: 120-125-40 Restricted Fund-Extraordinary Losses	XXX	
Credit: 120-121-10 Cash General Fund		XXX
3. To effect disbursements for extraordinary expenses.

Debit: 462-430-00 Extraordinary Expenses-Calamities	XXX	
Credit: 120-125-40 Restricted Funds-Extraordinary Losses		XXX

VI. EFFECTIVITY

This policy shall immediately take effect fifteen days following its publication in a newspaper of general circulation. Three (3) copies shall be filed with the University of the Philippines (UP) Law Center pursuant to the Presidential Memorandum Circular No. 11, dated October 9, 1992.

Edita S. Bueno
EDITA S. BUENO
 Administrator

