



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

09 July 2014

**MEMORANDUM No. 2014-017**

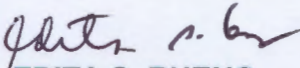
**TO :** ALL ELECTRIC COOPERATIVES (ECs)

**SUBJECT :** Policy on Power Supply Guarantee for Electric Cooperatives

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This is to provide you with the Policy on Power Supply Guarantee for Electric Cooperatives. The policy was approved by the NEA Board of Administrators on November 06, 2013 under Board resolution No. 154 Series of 2013.

For your information and guidance.

  
**EDITA S. BUENO**  
Administrator



## **POWER SUPPLY GUARANTEE PROGRAM FOR ECs**

### **I. RATIONALE**

Sec. 30 of RA No. 9136 known as the “Electric Power Industry Reform Act of 2001” provides that NEA may, in exchange for adequate security and a guarantee fee, act as a guarantor for the purchases of electricity in the WESM by any Electric Cooperative (EC) or Small Distribution Utility (SDU) to support their credit standing. For this purpose the authorized capital stock of NEA was increased to fifteen billion pesos (Php15B).

Further, Sec. 5 of RA No.10531 also provides that NEA shall serve as guarantor to qualified electric cooperatives in their transactions with various parties such as, but not limited to, co-signing in power supply contracts. The authorized capital stock of NEA was increased to twenty five billion pesos (Php25B).

### **II. OBJECTIVE**

To establish a Power Supply Guarantee Program to secure the power purchases of qualified Electric Cooperatives (ECs) in the Wholesale Electricity Spot Market (WESM), Interim Mindanao Electricity Market (IMEM) or under a bilateral contract with the generating companies or National Grid Corporation of the Philippines.

### **III. POLICY STATEMENT**

It shall be the policy of NEA to establish a Power Supply Guarantee Program for qualified Electric Cooperatives (ECs) taking into consideration the NEA’s equity position.

#### **IV. IMPLEMENTING GUIDELINES**

The Power Supply Guarantee Program shall be subject to the following guidelines, namely:

##### **1. Purpose of Guarantee**

To help the ECs comply with the security requirements of their power supply providers.

##### **2. Eligibility Criteria**

An EC which meets the following financial indicators may be extended guarantee:

<i>Quick ratio</i>	-	<i>1:00:1</i>
<i>Debt Ratio</i>	-	<i>up to 0.60X</i>

*However, the Administrator may extend guarantee in meritorious cases, such as, but not limited to, ECs affected by typhoon/other calamities and unforeseen circumstances after due evaluation and assessment of their financial condition.*

##### **3. Nature of Guarantee**

The NEA as guarantor can invoke the benefit of excussion as provided by the Civil Code of the Philippines and payment of claims shall be made subject to Number 13 of this Policy.

#### 4. Maximum Guarantee Cover

The guarantee that may be extended to an EC shall be limited to the following:

A	Power Supply Contract	1 month average power bill
B	Transmission Service Agreement	1 month average power bill
c	WESM	based on WESM Rules (presently it is 63 days on 12 months rolling average, however, there is a proposal to reduce it to 35 days on 6 months rolling average)
D	IMEM or its Variation	Based on its Rules (33 days based on 6 months rolling average)

Provided, that the guarantee exposure to ECs shall not be more than Php200M, and provided further that the aggregate loan and guarantee exposure of NEA to every EC shall not exceed 70% of the EC's Net Utility Plant In Service, Cash and Accounts Receivable. The NEA may require a co-guarantor if it deems necessary to lower its credit exposure or to mitigate credit risks.

#### 5. Guarantee Fee/ Processing Fee

For and in consideration of the guarantee by NEA, a guarantee fee of 1.25% to 1.75% per annum of the guaranteed amount depending on the classification of the EC and a one-time processing fee of 0.50% shall be collected upon effectivity of the guarantee agreement.

## **6. Documentary Requirements**

The EC shall submit the following requirements to support its application for guarantee cover:

- Board Resolution applying for guarantee and designating the officers who shall represent and sign documents.
- Latest Audited Financial Statements
- 2 Year Monthly Projected Financial Statements
- ERC Approved Power Supply Agreement
- PEMC's Certificate of Qualification for Registration and or Self Assessed Trading Limit
- Transmission Supply Agreement
- Monthly Financial and Statistical Report ( Latest)

## **7. Approval of EC's Guarantee Cover**

The Administrator is authorized to approve and release the individual guarantee cover of the ECs subject to confirmation by the NEA Credit and Risk Management Committee and ratification by the NEA Board of Administrators.

## **8. Effectivity of Guarantee Cover**

The guarantee cover shall be effective for a period of one year, renewable annually upon mutual agreement of both parties.

## **9. Collateral/Security Component**

The EC is required real estate first mortgage as security to the guarantee cover.

## **10. Guarantee Fund**

An initial guarantee fund of P500M, which shall be taken from the Internally Generated Fund, shall be set up as an Escrow Account exclusively for the purpose of guarantee claims payments. This fund may be increased upon receipt of equity support from the National Government.

## **11. Leveraging Ratio**

Initially, NEA's total guarantee exposure shall not at any given period exceed two times the amount of available guarantee fund established. However, this leverage ratio will be reviewed annually or as the need arises based on the actual default rate of ECs and may be further increased subject to the approval of the NEA Board.

## **12. Event of Default**

There is default in case the EC fails to pay its contractual obligations by the appointed time as prescribed in the Power Supply and Transmission Service Agreements.

## **13. Guarantee Call**

The power supplier shall notify NEA within 3 calendar days from the date of default by the EC in the prescribed Call on Guarantee Form. The NEA may opt to pay the guaranteed amount or the remaining balance thereof.

#### **14. Effect of Payment Made by NEA**

- A. Upon payment by the NEA, whether full or partial, the guarantee cover shall be considered suspended. The EC shall be given a 30-day grace period within which to reimburse NEA subject to the prevailing interest rate.
- B. Should the EC be able to reimburse NEA within the said grace period, the guarantee cover shall be reinstated and shall continue to run until the expiration of the one-year period.
- C. In case of failure of the EC to reimburse NEA for the principal and interest within a period of thirty (30) days, NEA shall be indemnified under a separate loan agreement between the NEA and the EC, subject to the following terms and conditions:
  - a. Repayment Period - Maximum of two (2) years, quarterly amortization as maybe determined by NEA
  - b. Interest Rate per annum – prevailing NEA interest rate at the time of payment to supplier
  - c. Penalty Charge – 18% per annum
- D. While the loan is still outstanding, the EC will be ineligible to avail of the guarantee cover.

#### **15. Reportorial Requirements**

During the term of the guarantee, the following documents shall be provided by the EC to NEA:

- a) Copy of the annual audited financial statements on or before June 30 after end of each year and/or the monthly interim financial statements (MFSR) on or before the 30th day of the following month.
- b) Recovery Plan Accomplishment Report, if applicable

The EC's books of accounts shall also be open for periodic review/audit by NEA within reasonable working hours.

## **16. Monitoring System**

The Management will present to the NEA Board the Outstanding Contingent Liability under this Program on a regular basis to monitor compliance with the maximum leverage ratio. It will also report the performance of the Program including default rate.

### **V. Responsibility Center**

The Accounts Management and Guarantee Department (AMGD) shall be responsible for the overall implementation of this Program, in coordination with Legal Services Office and other Departments/Offices.

### **VI. Effectivity**

This Policy and Implementing Guidelines shall take effect upon approval by the NEA Board of Administrators.

*Approved by the NEA Board of Administrators on November 6, 2013  
under Board Resolution No. 154 Series of 2013*