



June 23, 2016

MEMORANDUM No. 2016-012

TO : ALL ELECTRIC COOPERATIVES (ECs)

SUBJECT : Amended Policy on Rural Electrification (RE) Loan-Working Capital for Electric Cooperatives (ECs)

1. The passage of RA No. 10531 (NEA Reform Act) mandated NEA anew, through review and upgrading of regulatory policies, and development and implementation of programs, to prepare the ECs in operating and competing under the deregulated electricity market to strengthen the technical capability, economic and financial viability of ECs.
2. The ECs are already in existence for more than 40 years and need to implement realignment of organizational structure and functions, among others, to address both the present and future requirements of the ECs on open access, trading, and the wheeling business, both structurally and functionally.
3. Likewise, ECs are subject to taxes, both national and local (real property tax, VAT and franchise), and they have been at the receiving end of various tax assessments and related tax collection efforts.
4. Taxes that are paid by the ECs are deemed part of their operating costs and allowed by ERC for recovery from the consumers. However, while Real Property Tax (RPT) is a common expenditure for ECs, they vary in amount depending on the LGUs. As such, the same was not considered in the initial DSM rate. Hence, the ECs have been requesting for working capital loan for taxes. Tax arrears that are paid by the ECs are allowed by ERC for recovery only after securing the consent of the consumers.
5. As a result of our consultation with the Finance Managers Association of the Philippines (FIMAP) of ECs, the NEA Board of Administrators approved on June 10, 2016 the amended Policy on Rural Electrification (RE) Loan-Working Capital for Electric Cooperatives, to include the financing of special retirement program and tax obligations of ECs (copy attached).

For your information and guidance.


EDITA S. BUENO
Administrator

AMGD-AMD-16-06-877

NATIONAL ELECTRIFICATION ADMINISTRATION
Office of the Administrator



NEA-OA22966

6/24/16

RURAL ELECTRIFICATION (RE) LOAN - WORKING CAPITAL FOR ECs

I. Objective

To establish a credit facility for ECs to finance the prudential requirement and security payment with WESM/GENCOs/NGCP, and for the timely payment of power account; for special retirement package of EC employees; and for tax obligations.

II. Background

Some Transition Supply Contracts (TSC) of ECs with NPC were already transferred and assigned to the NPC Successor GENCOs. While NPC did not impose the provision of Security Payment as provided for in the contract, GENCOs are now requiring ECs for security payment equivalent to one billing period.

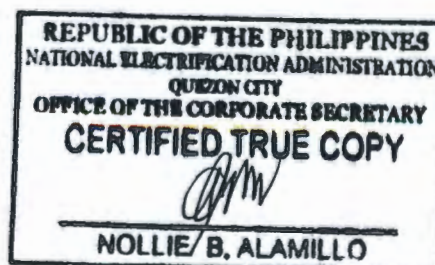
WESM membership is mandatory for all ECs that are directly connected to the grid. Pursuant to the WESM Rules, no person or entity can inject or withdraw power from the grid without being registered as WESM direct or indirect member.

The passage of RA No. 10531 (NEA Reform Act) mandated NEA anew, through review and upgrading of regulatory policies, and development and implementation of programs, to prepare the ECs in operating and competing under the deregulated electricity market to strengthen the technical capability, economic and financial viability of ECs.

The ECs are already in existence for more than 40 years and need to implement realignment of organizational structure and functions. On 21 September 2004, the NEA Board of Administrators approved the Guideline on EC Model Organizational Structure which includes Management Tools on Early Retirement Program, among others, to address both the present and future requirements of the ECs on open access, trading, and the wheeling business, both structurally and functionally.

Likewise, ECs are subject to taxes, both national and local (real property tax, VAT and franchise), and they have been at the receiving end of various tax assessments and related tax collection efforts.

Taxes that are paid by the ECs are deemed part of their operating costs and allowed by ERC for recovery from the consumers. However, while Real Property Tax (RPT) is a common expenditure for ECs, they vary in amount depending on the LGUs. As such, the same was not considered in the initial DSM rate. Hence, the ECs have been requesting for working capital loan for taxes. Tax arrears that are paid by the ECs are allowed by ERC for recovery only after securing the consent of the consumers.



III. Policy Statement

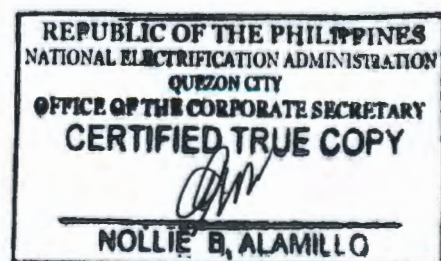
NEA may provide a Working Capital Loan to ECs to finance the prudential/security requirement with WESM and bilateral contracts with GENCOs/IPP, and for the timely payment of power account; for special retirement package of EC employees; and for tax obligations, as follows:

Facility	WC- Power Supply Contract Obligations	WC-Special Retirement Package for Employees	WC-Tax Obligations
Loanable Amount	One month power cost but not to exceed Php200M	Maximum of Php80M	Maximum of Php20M
Interest Rate per annum	<ul style="list-style-type: none"> 5.5% or NEA prevailing rate at the time of drawdown for repayment period of up to 2 years 6% or NEA prevailing rate at the time of drawdown for repayment period of 3 to 5 years 		
Default Charge	18% per annum		
Repayment period	Maximum of 5 years		
Validity Period	Two years (extension subject to the Policy on Validity Period of Loan)		
Pre-payment fee	2% if loan is taken out by other banks/FIs		
Security/Collateral	<ul style="list-style-type: none"> Issuance of post-dated check/s Continuing Deed of Assignment of Power Receivables 		

IV. Requirements

To avail of the loan, the EC shall submit the following requirements in support of its application:

1. Board Resolution requesting for the avilment of loan and further authorizing the EC General Manager and Board President to sign loan agreement and other pertinent documents for this purpose
2. 5 Year Projected Financial Statements (e-ICPM)
3. Power Supply Contract/s (for Power Supply Contract Obligations)
4. Approved Special Retirement Program (for Special Retirement Package for Employees)
5. List of employees availing retirement including computation (for Special Retirement Package for Employees)
6. Benefit/cost analysis (for Special Retirement Package for Employees)
7. Tax Assessment (for tax obligations)



V. NEA's Evaluation and Approval

Application for loan shall be submitted to NEA-AMGD together with the documentary requirements for evaluation and recommendation.

The Loan Recommendation and Approval Document (LRAD) shall be submitted to the Administrator for approval, subject to confirmation/ratification by the NEA Board Credit and Risk Management Committee/Board of Administrators.

VI. Release of Loan

NEA will release the loan directly to PEMC and/or GENCOs/NGCP for power account payment, and to the LGU for tax obligations.

VII. Effectivity

This Policy shall be effective upon approval by the NEA Board of Administrators.

Approved by the NEA Board of Administrators on June 10, 2016
under Board Resolution No. 79 Series of 2016

