



June 23, 2016

MEMORANDUM No. 2016-014

TO : ALL ELECTRIC COOPERATIVES (ECs)

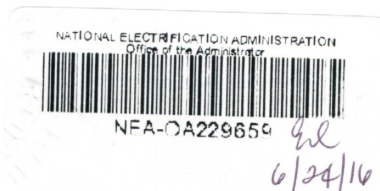
SUBJECT : Credit Facility for Emergency, Unplanned and Contingency CAPEX Projects, and Disaster Resiliency Program for ECs

-
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. Oftentimes, the ECs are affected by causes or events beyond their control, which necessitate the immediate implementation of CAPEX projects (emergency, unplanned and contingency) that are not included in their CAPEX Projects Plan submitted to ERC.
 3. Likewise, recognizing the frequent occurrence of natural calamities with their extraordinary intensity, as the new normal, NEA approved the Policy on Electric Cooperatives' Resiliency Program. Under the policy, the EC shall prepare distribution system design in conformity with the "Build Back Better" scheme, and establish a buffer stock as well as a sinking fund to cover mobilization for immediate deployment of personnel and vehicles in time of calamities/emergencies.
 4. As a result of our consultation with the Finance Managers Association of the Philippines (FIMAP) and Philippine Association of Technical Managers (PHILATMEC) of ECs, the NEA Board of Administrators approved the Credit Facility for Emergency, Unplanned and Contingency CAPEX projects, and Disaster Resiliency Program for Electric Cooperatives on June 10, 2016 (copy attached).

For your information and guidance.


EDITA S. BUENO
Administrator

AMGD-AMD-16-06-876



Credit Facility for Emergency, Unplanned and Contingency CAPEX Projects, and Disaster Resiliency Program for Electric Cooperatives

I. Objective

To establish a credit facility that would finance the implementation of emergency, unplanned and contingency CAPEX projects, and disaster resiliency program of Electric Cooperatives (ECs).

II. Policy Background

Pursuant to RA 9136 (EPIRA), the Energy Regulatory Commission (ERC) adopted the Guidelines to Govern the Submission, Evaluation and Approval of Electric Distribution Capital Projects (Res. No. 13, S. 2006), and the Amended Rules for Approval of Regulated Entities' (which include the ECs) Capital Expenditure (CAPEX) Projects (Res. No. 26, S. 2009). The ECs are required to implement capital projects that are needed to serve forecasted future loads and to maintain good electric service to existing and future customers, satisfying the utility's technical criteria for capacity, reliability, quality and safety.

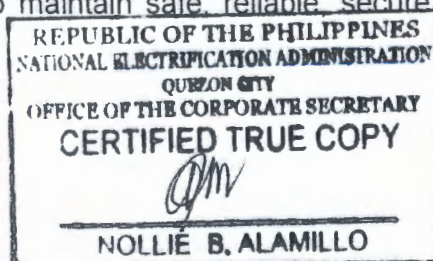
Oftentimes, the ECs are affected by causes or events beyond their control, which necessitate the immediate implementation of CAPEX projects (emergency, unplanned and contingency) that are not included in their CAPEX Projects Plan submitted to ERC.

Likewise, recognizing the frequent occurrence of natural calamities with their extraordinary intensity, as the new normal, NEA approved the Policy on Electric Cooperatives' Resiliency Program. Under the policy, EC shall prepare distribution system design in conformity with the "Build Back Better" scheme, and establish a buffer stock composed of poles, insulated conductors, distribution transformers, electronic kWh meters & service wires, as well as a sinking fund to cover mobilization for immediate deployment of personnel and vehicles in time of calamities/emergencies.

Based on NEA's study, the estimated cost of buffer stock for vital materials and equipment ranges from Php6M for small EC to Php136M for mega-large EC.

III. Definition of Terms

- a. Unplanned CAPEX - projects that may occur at any given period which may be resulting from unexpected significant new load that will be connected to the distribution system.
- b. Contingency CAPEX – expenditures that may occur at any given period which may be resulting from the implementation of national government policies and initiatives and/or implementation of local government programs.
- c. Emergency CAPEX- projects that require immediate implementation during an event other than those related and covered by force majeure and/or fortuitous events in order to maintain safe, reliable, secure and efficient operation of the power system.



IV. Policy Statement

NEA may provide a loan to ECs to finance the implementation of their emergency, unplanned and contingency CAPEX projects, and disaster resiliency program, as follows:

- a) Loanable Amount : Project cost up to Php50M
- b) Terms and Conditions :
- 6% interest rate per annum, fixed for 10 years, subject to re-pricing at the end of the 10th year but not lower than 6% or NEA prevailing interest rate at the time of drawdown
 - 12% default charge per annum
 - 2% pre-payment fee if the loan is taken up by other banks/FIs
 - Maximum of 15 years repayment period
 - Maximum of one year grace period
 - Validity period of 3 years
 - Issuance of postdated checks
 - Continuing Assignment of Power Receivables

The Administrator is authorized to approve/release the loan of ECs, subject to confirmation/ratification by the NEA Board of Administrators.

V. Requirements

To avail of the loan, the EC shall submit the following:

- a. Board resolution requesting for the availment of loan and further authorizing the EC General Manager and Board President to sign loan agreement and other pertinent documents for this purpose
- b. Budget Request
- c. Project Profile/justification including timetable for the implementation/completion of project
- d. 15 Year Projected Financial Statements (e-ICPM)
- e. Price reference (if necessary)

VI. Effectivity

This Policy shall take effect upon NEA Board approval.

