



October 08, 2020

MEMORANDUM NO. 2020 - 049

TO : ALL ELECTRIC COOPERATIVES (ECs)

SUBJECT : Policy for the Classification of Electric Cooperatives (ECs) and Guidelines for the Declaration and Graduation of Ailing EC

This is to provide you with the approved Policy for the Classification of Electric Cooperatives (ECs) and Guidelines for the Declaration and Graduation of Ailing EC.

This policy will supersede Memorandum No. 2014-001 "Guidelines for the Classification of ECs and Provision for NEA Intervention".

It shall take effect 15 days upon filing with the University of the Philippines (UP) Law Center pursuant to the Presidential Memorandum Circular No. 11, dated October 9, 1992.

For your information and reference.

EDGARDO R. MASONGSONG
Administrator

NATIONAL ELECTRIFICATION
ADMINISTRATION
Office of the Administrator



NEA-0A265667

10/14/20



Policy for the Classification of Electric Cooperatives (ECs) and Guidelines for the Declaration and Graduation of Ailing EC

I. Rationale

Republic Act NO. 10531 mandated the National Electrification Administration to promote sustainable development of the country through rural electrification program and to empower the electric cooperative to cope with the changes brought about by the restructuring of the electric power industry. Electric service is one of the necessities for national progress therefore; it is the government's obligation to ensure that this mission is carried out even in the missionary and economically unviable areas.

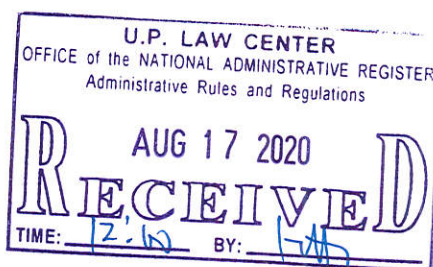
However, many implementation challenges and issues adversely affect the ECs' operation and performance and may result to their classification as underperforming and/or ailing ECs. These include unstable peace and order situation, high incidence of poverty, strong political interventions, cultural beliefs, governance issues, natural and man-made calamities, among others. These issues adversely affect the ECs' status of operation, which may result to underperformance and further to be re-classified as ailing ECs.

Rule IV, Section 19 in the Implementing Rules and Regulations (IRR) of RA 10531 mandated NEA to ensure that the ECs are financially viable and to develop financial, operational and governance standards to serve as triggers for the intervention of the NEA in the EC operations at least one (1) year prior to being categorized as ailing EC.

Further, under Rule IV of the same IRR, Section 20 defines that the NEA may declare an EC as an ailing EC when such EC falls under any of these circumstances:

- a. Has negative net worth for the last three (3) years which means that liabilities are greater than its assets
- b. Has accumulated ninety (90) days arrearages in power supply purchases from GENCOs and Transco/NGCP
- c. Unable to provide electric service due to technical and/or financial inefficiencies including but not limited to high system loss, low collection efficiency, below standard current ratio, operating loss, huge liabilities and/or institutional problems (governance and non-adherence to NEA and EC policies)
- d. Unable to efficiently performs its electric distribution utility obligations or continue in business due to organizational, external and internal factors
- e. Has failed to meet other operational standards established by NEA
- f. Unable to set up or continually support its Wholesale Electricity Spot Market prudential requirements

Section 21 of the IRR further provides that NEA shall immediately exercise its step-in right over an ailing EC.



II. Policy Statement

It is the policy of the NEA to prescribe a mechanism to ensure delivery of reliable, efficient and affordable electric service in their coverage areas and to avert threat of power supply interruption. This includes the following:

- a. Assessment of the performance of ECs with due consideration to the ailing ECs;
- b. Declaration and classification of ECs as ailing after observance of due process under this policy; and
- c. Exercise of step-in rights when circumstances warrant.

III. Objectives

- a. Formulate and prescribe financial, operational, technical and governance standards for the classification of ECs
- b. Ensure early detection of adverse financial condition to serve as triggers for NEA interventions
- c. Institute preventive, remedial and mitigating measures prior to being categorized as ailing ECs
- d. Provide prescribed procedures in declaration of ECs as ailing to ensure the observance of due process
- e. Implement alternative options for ailing ECs
- f. Provide criteria for the graduation or delisting of EC from being an ailing.

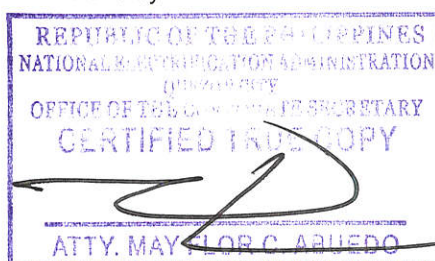
IV. Performance Parameters and Standards for EC Classification

The NEA shall classify the ECs based on the performance standards enumerated below. This shall serve as baseline or benchmark of the particular EC.

Parameters	Standards
1. Cash General Fund	At least one (1) month working capital for power and non-power costs
2. Collection Efficiency	95% (annually reviewed)
3. Accounts Payable <ol style="list-style-type: none">a. Power<ul style="list-style-type: none">• GENCOS• Transmission (NGCP)*• Sub-Transmission (BSTC)**b. Financial Institutions (FIs) (NEA, Banks, other FIs)	Current/Restructured-Current
4. Result of Financial Operation	Positive
5. Net worth	Positive
6. System Loss	Within the cap
7. Reliability SAIDI/SAIFI	Within the standard set by Philippine Distribution Code (PDC)

*On-Grid EC only

** For FIBECO and BUSECO only



V. Classification of ECs

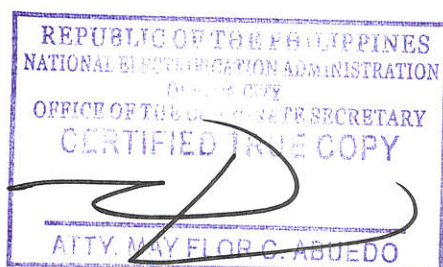
CLASS	GREEN EC	YELLOW 1 EC	YELLOW 2 EC	RED
DEFINITION	Meet all parameters and standards	ECs which failed to comply with not more than 3 parameters and standards	<ul style="list-style-type: none"> ECs which failed to comply with 4 or more parameters and standards; and ECs which fall under any of 7 circumstances but not yet declared as Red or Ailing ECs 	ECs which were declared and classified as Ailing ECs after observance of due process
COMPLIANCE STATUS	Full	Substantial	Partial	Non-Compliance
NEA INTERVENTION	Less	Under Watch List	Close Monitoring	Full Intervention; Open for partnership with private sector, local government and other ECs

VI. Guidelines

In the event that any of the circumstances provided in the Section 20 of Rule IV in DOE's IRR of R.A. 10531 occur, NEA shall perform the following procedures prior to the declaration of the EC as an "Ailing EC."

A. Declaration of EC as an Ailing EC

- The ECs are responsible to submit all reportorial requirements within the prescribed period.
- NEA shall undertake review, assessment and validation of the ECs' operating performance based on established parameters and using a 5-year historical performance.
- The result of the assessment and the recommended intervention/s according to EC Classifications shall be forwarded to the Administrator for approval. Intervention/s that may be recommended are, but not limited, to the following:
 - Creation of Task Force Power and Management Teams
 - Designation of Acting General Managers and/or Project Supervisors
 - Appointment of NEA Representative to the EC Board of Directors (BODs)
 - Formulation and Issuance of new and relevant Policies and Guidelines
 - Round Table Assessment of the implementation of plans and program
 - Provision of loans and subsidies
 - Capacity Building for EC management and staff
 - Member-Consumer-Owners (MCO) Empowerment Program
 - Financial, institutional and technical service facilities

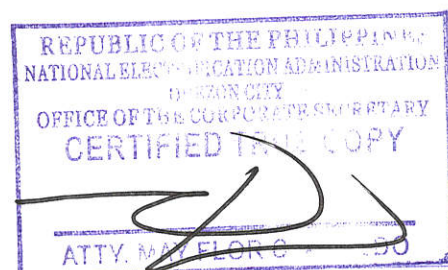


- d. If the operational and financial conditions further deteriorate (EC falls under the circumstances set forth in Section 20 of RA 10531 IRR) prior to the declaration of an EC as an ailing EC, it may be afforded a recovery period of not more than one (1) year commencing from the date when the EC received the result of assessment. During this recovery period, the EC shall undertake remedial measures to mitigate its difficulties such as, but not limited to, the formulation of a doable Operation Improvement Plan (OIP) wherein projects, programs and activities geared towards meeting the compliance requirements of Key Performance Standards shall be indicated. The plan will be submitted to NEA for approval.

The EC shall submit quarterly Monitoring Report on the status of the projects and programs in its OIP. When it exhibited some observable improvement within 180 days of the recovery period, the EC shall continue with the implementation of the OIP for the remainder of the one-year period. After the one (1) year period with improvements, the EC shall then be required to submit a Strategic Development Plan for another one (1) year.

However, if within the given recovery period of not more than 1 year, there are still no concrete or significant improvement in the EC's operational and/or financial conditions, the OIP shall be set aside and become wholly inoperative.

- e. The NEA shall undertake a comprehensive audit after 180 days but not later than 270 days after the implementation of OIP and if found that the EC is non-compliant with the set performance and governance standards, NEA shall declare an EC as underperforming and/or ailing.
- f. The ailing ECs, which NEA had already taken early interventions, may enter into partnership with the EC National/Regional Organizations and/or the private sector investor under the following framework after due process:
1. Cooperative to Cooperative Approach (C2C) or Task Force Kapatid (TFK)
 - Merger
 - Consolidation
 - Special Equipment and Materials Lease Agreement
 2. Private Sector Participation (PSP)
 1. Joint Venture (JV)
 2. Investment Management Contract (IMC)
 3. Management Contract (MC)
 4. Operation and Management Contract (OMC)
 5. Concession Agreement (CA)
 6. Other variant applicable to ECs



3. Combination of C2C and PSP
4. C2C and Local Government Unit (LGU)
5. LGU and PSP

Contracts to be executed on any kind of the afore-mentioned partnership must be reviewed by the NEA.

- g. In case of fortuitous events, force majeure and/or natural and man-made calamity, the NEA may implement any of the above mentioned interventions.
- h. The NEA shall enforce performance standards and submit quarterly compliance report to the Department of Energy (DOE) and Joint Congressional Energy Commission (JCEC) which shall include summary of compliance to established parameters; and recommendations for rehabilitation or take-over.

B. Graduation/Delisting of an Ailing EC

The NEA shall approve the graduation or delisting of EC from being an ailing if it meets the following criteria:

1. EC's Overall Performance Rating for the last three (3) years is at least C; and
2. EC's compliance to the parameters and standards under the EC Classification is at least three, part of which is Current – Current/Restructured status in the payment of its power suppliers.

VII. Amendatory Clause

This supersedes Memorandum 2014 - 001 series of 2014 dated January 14, 2014, Guidelines for the Classification of ECs and Provisions for NEA Intervention.

VIII. Effectivity

The policy shall take effect 15 days upon filing with the University of the Philippines (UP) Law Center pursuant to the Presidential Memorandum Circular No.11, dated October 9, 1992.

Approved:

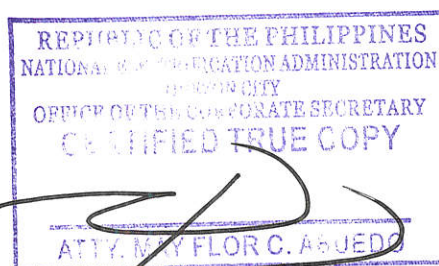

EDGARDO R. MASONGSONG
 Administrator

NATIONAL ELECTRIFICATION
 ADMINISTRATION
 Office of the Administrator



NEA-04265178

04/29/2020





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10 August 2020

THE DIRECTOR

Office of the National Administrative Register
University of the Philippines Law Center
U. P. Law Center, Diliman
Quezon City

Sir:

Pursuant to Book VII, Chapter 2, Section 3 of the 1987 Administrative Code of the Philippines, we are respectfully submitting to the U. P. Law Center, for filing, publication and recording of the attached certified true copies of the **POLICY FOR THE CLASSIFICATION OF ELECTRIC COOPERATIVES (ECs) AND GUIDELINES FOR THE DECLARATION AND GRADUATION OF AILING EC**, which was approved by the Administrator, National Electrification Administration (NEA).

Thank you very much for the usual and kind assistance of the U.P. Law Center.

Very truly yours,


ATTY. MAY FLOR C. ABUEDO
Corporate Board Secretary V

