

## Republic of the Philippines NATIONAL ELECTRIFICATION ADMINISTRATION

Quezon City

07 May 2004

MEMORANDUM

TO

ALL ELECTRIC COOPERATIVES

SUBJECT

Effectivity Date of Electric Cooperatives (ECs) Loans to be Assumed by Power

Sector Assets and Liabilities Management Corporation (PSALM)

The NEA Board of Administrators in its Resolution No. 40, approved during its meeting of April 28, 2004, the effectivity date of loan condonation which is on the day ERC issued the Provisional Authority (PA) to reduce rates due to loan condonation. The Board's action was premised on the following:

- Section 60 of RA 9136 otherwise known as Electric Power Industry Reform Act of 2001 (EPIRA)
  provides that: "All outstanding financial obligations of ECs to NEA and other government agencies
  incurred for the purpose of financing the Rural Electrification Program (RE) shall be assumed by
  PSALM Corp. in accordance with the program approved by the President of the Philippines".
- 2. Rule 31 Section 6 of the Implementing Rules and Regulations (IRR) of EPIRA states that: "Nothing in this Rule however, shall mean that ECs are not obliged to pay the NEA with respect to all outstanding financial obligations assumed by PSALM if the amortization cost components of the EC's tariff is still collected from consumers".
- 3. On August 28, 2002, Executive Order 119 was signed by the President. Section 5 of said Executive Order provides that the assumption of RE loans shall be effective upon compliance with certain terms and conditions. Letter C of the said terms and conditions states that: "At all times the assumption by PSALM of the RE loans shall take effect only upon Energy Regulatory Commission (ERC) approval on the reduction in the EC's rates commensurate with the resulting savings due to the removal of the amortization payments on the RE loans".
- ERC issued Provisional Authority (PA) to ECs to reduce rates due to loan condonation starting March 2003 hence, the effectivity date of loan condonation commences on respective issuance dates.
- Moreover, the National Government (NG) continues to charge NEA the corresponding foreign loan obligations related to these loans.

For your information and guidance.

EDITA S. BUENO

Administrator

NATIONAL ELECTRIFICATION ADMINISTRATION

and the same

El + 04