# LOAN POLICIES

(Selected Policies from the Loan Policy Handbook)

## Additional Loan Policies

# LOAN POLICY NO. 1

# LENDING OBJECTIVES

## OBJECTIVES:

To define the objectives of the lending program of the National Electrification Administration.

## POLICY STATEMENT:

The objectives of the lending program of the National Electrification Administration (NEA) shall be:

1. To attain financial stability for NEA by applying the appropriate pricing mechanisms;
2. To assure a readily available source of funding to meet the financial requirements of qualified ECs;
3. To manage a loan portfolio that will address NEA's investment planning thrust of: (1) rehabilitation/upgrading projects; (2) add-on projects; and (3) systems expansions;
4. To ensure the continued financial viability of the Rural Electrification Program through timely infusion of emergency and other loans to ECs and other borrowers when deemed appropriate, while simultaneously exercising rigorous supervision over delinquent and failing ECs. All the resources of the National Electrification Administration, both human and physical, shall be harnessed in the pursuit of these objectives.

*Approved by the Board*
*Date: May 13, 1991*

# LOAN POLICY NO. 2

# PRICING

## OBJECTIVE:

To define a pricing strategy that will allow NEA to recover cost and ensure viability.

## POLICY BACKGROUND:

A pricing mechanism that will ensure viability for NEA is a necessary business tool. Whereas NEA, in the past, had not observed reasonable and prudent financial practices in its lending activities, it now recognizes the need for a self-sustaining posture considering the realities of the present times. Accordingly, NEA will impose a rate that has been determined to be the rate it has to charge to recover its cost of capital, administrative and operating cost and the foreign exchange risk recovery component.

In the past, NEA's lending rate was lower than its average cost, accounting for a substantial portion of its current financial difficulties. NEA's lending program was not synchronized, with varied lending rates based on cost of specific funding donors.

NEA has accordingly adopted a loan pricing strategy whose thrust is to provide loans to qualified ECs on a "fund-source neutral" basis. Thus, NEA's total cost of funds, regardless of donors, is based upon the weighted average cost of funds, is then applied uniformly to the ECs.

Loans granted to financially non-viable rural electrification projects come from government subsidy sources and are exempt from the above-cited interest rate coverage. Please refer to Loan Policy No. 8 for details

POLICY STATEMENT:

Loans granted are to bear interest rates of 9%. Interest rates shall be reviewed semi-annually and if a revision in the interest rate is warranted, the new interest rate shall be imposed on all loans granted/restructured as of the date of the effectivity of the new rate.

*Approved by the Board*
*Date: May 13, 1991*

*Amended*
*Date: November 30, 2006*

*Amended*
*Date: April 10, 2008*

# LOAN POLICY NO. 3

# LIQUIDITY MANAGEMENT

## OBJECTIVE:

To ensure a process whereby NEA's financial commitments shall be met on a timely basis.

## POLICY BACKGROUND:

Liquidity management is the ability to continuously meet all financial commitments when contracts become due or needed. To fail to meet a commitment to release funds by a certain date is to endanger completion of a certain project or of meeting urgent cash requirements of the expectant recipient with possibly disastrous consequences. It becomes essential therefore to have NEA's financial commitments programmed on a long-term basis.

## POLICY STATEMENT:

Consistent with NEA's Five-Year Investment Planning Program, loan requirements for the period will correspondingly be programmed. Funding to meet these loan requirements will accordingly be sourced. In these processes much attention will have to be focused on (1) timely drawdown dates and (2) maturity periods. These are requisites for assurances of timely loan releases and repayments of borrowings. NEA's liquidity process will thereby be assured.

*Approved by the Board*
*Date: May 13, 1991*

## LOAN POLICY NO. 6

## TYPES OF LOANS AND ITS IMPLEMENTING GUIDELINES

OBJECTIVE:

To define the types of loans that shall be granted by NEA in its lending program.

POLICY STATEMENT:

A. General Classification - Loans granted by NEA will be generally classified into:

1. **Long Term Loans** – with maturity periods of more than five (5) years and with a grace period of one (1) year. A grace period is defined as that period of time between the first drawdown on the loan through the time when the first payment on the principal is made;

2. **Medium Term Loans** – with maturity periods of two (2) years and a day up to (5) years with a grace period of one (1) year;

3. **Short Term Loans** – with maturity periods of up to two (2) years and with no grace period.

B. Specific Loan Classification - Loans granted by NEA will be specifically classified and, as such, will address particular lending requirements of ECs. Each of these specific types of loans will fall within the broader classification of loans discussed above. These loans are as follows:

1. Rural Electrification Loans – address the technical and operational requirements of the ECs and comprise the major lending concern of NEA. RE loans, as such, are necessarily of fairly large magnitudes and are thus programmed over periods of time requiring solicitous investment planning. RE loans, by their nature, reflect phases of technical and operational activity and are thus sub-classified. These sub-classifications provide NEA's loan officers with the basis for monitoring the flow of loans into the specific phases of RE activity that are the object of NEA's lending thrust at specified periods of time.

   The sub-classifications of RE loans are as follows:

   a. Rehabilitation/Upgrading - - - covers reconductoring, transformer replacement and other reinforcement investments and replacement of failed or dilapidated equipment.

   b. "Add-Ons" - - - cover the connection of additional consumers along existing feeder and branch lines;

   c. Expansion - - - refers to (i) construction of new feeders and substations, or (ii) extension, by some considerable distance, of existing feeders, to connect new consumers;

   d. Construction - - - the installation of systems for new ECs that are principally to be those located in islands and low-income municipalities (LIMs) which are not deemed financially viable but for social reasons must be implemented, and shall also cover the construction EC office buildings, warehouse facilities and the like.

RE loans are long-term loans with maturity periods of more than five years and with a grace period of one year. For construction of new ECs, however, the grace period will be five (5) years from the date of energization.

2. Logistical Loans – address the EC requirements of occasional replenishment of support equipment such as radios, audio-visual equipment, computers, vehicles and other such logistical equipment.

   Logistical loans are medium-term loans with maturity periods of two years and a day up to five years and with a grace period of one year.

3. Emergency Loans – granted to provide for repair of facilities of ECs, which have become victims of natural calamities such as typhoons, floods and earthquakes.

   Whenever repair requirements for emergency loans shall be of substantial magnitude, however, the loan requirements may have to be addressed by an RE loan. In the meantime that such RE loan is being evaluated, emergency loans may be granted to initiate the restoration of the EC to operational status. Such emergency loans as granted become “bridging loans”, that is, loans to cover immediate needs until the appropriate RE loan shall have been evaluated and approved. Upon approval, the RE loan assumes the emergency loan.

*Approved by the Board*
*Date: May 13, 1991*

# LOAN POLICY No. 6 A

# POLICY ON THE CONSTRUCTION OF HEADQUARTERS USING ELECTRIC COOPERATIVES' GENERAL FUNDS

## OBJECTIVE:

To establish a policy on the construction of HQ facilities utilizing ECs' General Funds.

## POLICY BACKGROUND:

A number of ECs have been renting office spaces since their inception. As their operations grow, their temporary quarters become too confining and in time have depreciated to a point where it is no longer fit and presentable as an office, and maintenance and renovation expenses have become exorbitant. Because of this, the National Electrification Administration (NEA) has been deluged with requests/authority from these ECs for construction of HQ facilities.

NEA management recognizes the necessity of this infrastructure in the over-all operation and image building of the EC. Unquantifiable benefits can be derived from the provisions of the facilities such as good working environment for the employees that promote productivity, comfort and convenience for the transacting member-consumers, image building/improvement for the EC.

## POLICY STATEMENT:

Approval of HQ construction using ECs' general funds shall be based on the fulfillment of/compliance with all of the following policy guidelines.

## A. General Guidelines

1) Requests for the construction of HQ facilities shall be approved based on the fulfillment of all of the following qualification requirements:

    a) The EC must have energized all municipalities under its coverage area.

    b) The EC must be up to date in the payment of its loan amortization to NEA and power bill to NPC.

    c) Financial projections must show positive cash balances.

2) All construction of ECs' HQ facilities shall be in accordance with the specifications, standard designs and cost estimates set by NEA and the plans and drawings duly certified and signed by the required professional engineers.

    a) The office floor area shall not exceed the standard floor area requirement of three (3) sq. meters per employee that will be housed in the main office (the basis for the number of employees shall be the standard requirement relative to the number of consumers and not the actual number of employees presently employed). Additional floor space for hallways, corridors, lobby, board room, comfort rooms, etc. shall be provided.

b) The building cost shall be estimated based on the current official United Architects of the Philippines (UAP) cost estimates.

c) The cost of land for HQ site shall not exceed the NEA's Appraised value.

B. Specific Guidelines:

1) Request for the construction of HQ facilities (thru a Board Resolution) and the corresponding design drawing specifications, and cost estimates shall be approved by the NEA.

2) The construction of the HQ facilities shall be included in the approved cash operating budget of the EC and in the ECs' work plan.

3) The construction can be undertaken either by force account or by contract. If done by contract, bidding, award of contract and actual final construction/ supervision shall be conducted by the EC. Final copy of contract shall be submitted to NEA for monitoring.

*Approved by the Board*
*Date: May 13, 1991*

LOAN POLICY NO. 6 B

# EQUITY FINANCING SCHEME FOR THE ELECTRIC COOPERATIVES (EFSEC)

## OBJECTIVE:

To establish a credit facility that would finance the equity requirement of ECs in the procurement of distribution equipment and in the implementation of their rehabilitation and upgrading projects.

## POLICY BACKGROUND:

The compliance of the ECs to the Philippine Distribution/Grid Code would entail huge investments from the ECs. The limited resources of the National Government to support the ECs on this aspect constrain them to avail of private financing in order to procure the necessary distribution equipment and implement their rehabilitation and upgrading projects. Private financing usually covers only a portion of the total cost of the procurement and/or project to be implemented, in which case, the borrower has to provide the necessary equity portion. As part of the systems improvement program of NEA for the ECs, there is a need to assist the ECs in this regard.

## POLICY STATEMENT:

As part of the systems improvement program of NEA for the ECs, NEA shall finance the actual equity requirement or up to 20% of the total purchase price of the distribution equipment being procured through financing or the total cost of the project to be implemented through financing but not to exceed P8M with the following terms:

| | |
|---|---|
| Terms | 9% interest rate per annum (8% p.a. – 2 years)<br>3 to 5 years repayment period<br>Six (6) months grace period<br>Issuance of post dated checks |

*Approved by the Board*
*Date: June 25, 2004*

*Amended*
*Date: November 30, 2006*

*Amended*
*Date: April 10, 2008*
*(A Primer on NEA's Enhance Lending Program for the ECs Sept.08)*

## IMPLEMENTING GUIDELINES ON THE EQUITY FINANCING SCHEME FOR THE ELECTRIC COOPERATIVES (EFSEC)

## A. ELIGIBILITY CRITERIA:

A.1. ECs that meet the criteria stated below maybe extended assistance thru loan:

1. Must have a debt service ratio of 1.2
2. The EC must show capability to pay the proposed loan on top of all other existing obligations
3. With a loan/financing application or other mode of financing agreement

A.2. Priority Projects

Due to limited funds, the grant of loan shall be prioritized, as follows:

| | | |
|---|---|---|
| First Priority | - | Overloaded substations |
| Second Priority | - | Loaded substations |
| Third Priority | - | Other rehab/upgrading projects |

## B. REQUIREMENTS:

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

1. Board Resolution requesting for loan
2. Project Profile (Proj. Cost, Technical study, benefit/impact)

3. 5 year Projected Income Statement and Cash Flow including Schedules and Assumptions to projection
4. Term Loan Summary/offer sheet from the Bank or other Financing Agreement

C. FUNDS:

To set up an initial P100 Million to be sourced from the NEA Internally Generated Fund (IGF).

NEA's EVALUATION AND APPROVAL:

The individual loan shall be subject to the approval of the Administrator and confirmation of the NEA Board of Administrators.

*Approved by the Board*
*Date: June 25, 2004*

# LOAN POLICY NO. 6 C

# SINGLE DIGIT SYSTEM LOSS (SDSL)

## OBJECTIVE:

To assist the electric cooperatives in the reduction of the national average system loss by at least 1% yearly starting 2004 and attain a single digit level before 2010.

## POLICY STATEMENT:

Loan to be provided will support NEA's Single Digit System Loss Strategic Plan to achieve system loss below 10% by year 2010 in line with the pronouncement of Pres. Macapagal Arroyo that the National Average System Loss of ECs should be reduced to a single digit by the year 2010.

Major Activities to be undertaken:

- Installation of new substation
- Replacement of defective Kwhm for residential consumers
- Replacement of metering equipment for big industrial consumers
- Rehab/Upgrading of distribution lines
- Other activities as shown in the matrix

| | |
|---|---|
| TERMS: | 9 % interest rate per annum (8% p.a. – 2 years)<br>5-10 years repayment period<br>3-6 months grace period<br>Issuance of post dated checks |

*Approved by the Board*
*Date: September 21, 2004*

*Amended*
*Date: April 18, 2007*

*Amended*
*Date: May 2008*

# CONCESSIONAL LOAN FOR ELECTRIC COOPERATIVES (ECs)

## OBJECTIVE:

To define and establish a special lending window offering concessional loan for ECs under the Autonomous Region for Muslim Mindanao (ARMM), off-grid islands and other critically situated ECs.

## BACKGROUND:

The electric cooperatives (ECs) in the southern Philippines are confronted with problems owing to the special or unique culture of the people relative to their ethnic and religious belief such that the management and operation of the electric cooperatives in those areas were greatly affected. Also, the continuing war in Mindanao deprived the ECs to operate in a normal situation that likewise contributed to the ECs unviable and deteriorating performance.

The ECs in off-grid islands, on the other hand, are also facing problems on their uneconomic size, low sales volume, unreliable and limited power supply and inadequate funding resulting to unprofitable operation.

The implementation of operational and structural reforms by these ECs in order to turnaround their operations may need considerable amount of investment; however, given their present financial standing, private financing may be limited for these ECs.

Pursuant to Sec. 58 of RA 9136 mandating NEA to develop and implement programs to strengthen the technical and financial viability of electric cooperatives and to review and upgrade regulatory policies with a view to enhancing the viability of rural electric cooperatives as electric utilities, there is a need to establish a special lending window for these ECs to help them institute the needed reforms.

POLICY STATEMENT:

NEA may provide a concessional loan to ECs in the ARMM, off-grid island and other critically situated which have demonstrated a firm commitment of change and a feasible rehabilitation plan. The financial support may be used to help finance the implementation of programs on expansion, rehabilitation, structural and other reforms in order for them to comply, operate and compete in the deregulated electricity market and provide quality electric service to their consumers.

Funding for those shall come from annual allocation in NEA's budget for concessional relending, and from the annual appropriation of subsidy funds from the national government, 10% of which or P50M whichever is higher, will be allocated for relending to ECs.

The individual loan of the concerned EC shall be for approval by the Administrator subject to the confirmation by Board. The Concessional loan shall have the following terms:

| | | |
|---|---|---|
| Amount | : | The maximum amount of loan shall depend on the absorptive capacity of the EC |

| | | |
|---|---|---|
| Interest Rate | : | 5% lower than the interest rate - subsidy fund<br>3% lower than the interest rate – NEA IGF |
| Repayment period | : | 10 to 25 years repayment period |
| Grace period | : | 6 months to 3 years grace period |
| Other conditions | : | a. The loan will be a supervised loan<br>b. Attainment of annual key performance indicator such as but not limited to system loss, collection efficiency, payment to TRANSCO/ GENCO/NEA |

*Revised March 10, 2008*

LOAN POLICY NO. 6 E

# GUIDELINES ON THE GRANT OF CONCESSIONAL LOANS TO CALAMITY AFFECTED ELECTRIC COOPERATIVES

## OBJECTIVE:

To establish guidelines on the grant of concessional loans to calamity affected electric cooperatives (ECs).

## POLICY BACKGROUND:

1. ECs, in times of emergencies, need financial assistance from NEA to immediately restore electric distribution facilities damaged by typhoons, earthquakes and other natural calamities.

2. Thus, the annual budget of NEA regularly include funding allocation for calamity-stricken areas sourced from either subsidy/from equity investment of the National Government or internally generated fund.

3. The NEA Board of Administrators, in its desire to ensure that these problems are being addressed within appropriate time, had authorized the Administrator to extend concessional loans to calamity affected ECs subject to certain limitations.

## IMPLEMENTING GUIDELINES:

1. EC shall request inspection from the Central Office (CO)/Engineering Department to assess/determine the extent of damage brought by the calamity. A duly accomplished budget request with supporting documents,

signed by the authorized EC officials shall then be forwarded to the REO for evaluation/recommendation and to CO for final evaluation.

2. The NEA shall grant concessional loans subject to the following terms and conditions:

| Fund Source | Interest Rate | Repayment Period | Grace Period |
|---|---|---|---|
| a. Subsidy from the National Government | | | |
| Calamity | 5% | 5 yrs. | 6 mos. |
| Regular | 12% | 10 yrs. | None |
| b. Equity Investment of the National Government | | | |
| Calamity | 7% | 5 yrs. | 1 yr. |
| Regular | 12% | 10 yrs. | 1 yr. |
| c. Internally Generated Fund | | | |
| Calamity | 12% | 7 yrs. | 1 yr. |
| Regular | 12% | 10 yrs. | 1 yr. |

3. Release of concessional loans shall be in the form of peso and equipment and materials.

LIMITATIONS:

1. Loans for rehabilitation of calamity-stricken distribution facilities shall be limited to 50% of the evaluated cost inclusive of equipment and material releases which shall be exclusively used for the purpose.

2. Reimbursement of rehabilitation cost is not allowed.

3. Release of concessional loans shall be subject to existing guidelines on the release of construction funds to ECs.

EFFECTIVITY:

This shall take effect immediately.

*Approved by the Board*
*Date: June 5, 2002*

*Amended*
*Date: February 8, 2005*

# LOAN POLICY NO. 6 F

## STAND-BY CREDIT FACILITY (SCF) FOR THE ELECTRIC COOPERATIVES (ECs) POWER ACCOUNTS WITH GENERATION COMPANIES (GENCOs) AND MARKET OPERATOR (MO)

### OBJECTIVE:

To establish the NEA Stand-by Credit Facility (SCF) for Electric Cooperatives (ECs) to strengthen their credit worthiness with the GENCOs and the Market Operator.

### POLICY BACKGROUND:

The proposed Transition Supply Contract (TSC) of ECs requires a security deposit equivalent to 100% of the average monthly power bill of ECs which shall be posted upon privatization of the generating assets and/or upon commercial operation of the WESM which ever comes first. The security deposit, however, shall be waived provided the EC meets all of the credit worthiness indicators set-forth in the bilateral contract, one of which is the payment history of an EC, that there should be no overdue accounts for the preceding 12-month period.

Also, under the EPIRA, no Distribution Utility shall source more than ninety percent (90%) of its total demand from bilateral power supply contracts for the first five years from the establishment of the WESM. The WESM/Market Operator likewise requires all trading participants to provide and maintain a security to ensure the effective operation of the spot market.

POLICY STATEMENT:

NEA may provide a Stand-by Credit Facility for ECs which fail to meet the credit worthiness indicators as agreed upon in their contracts with the GENCOs, and/or to avoid suspension in the WESM and the claim of the security provided to the Market Operator due to default in payment.

*Approved by the Board*
*Date: February 15, 2005*

# IMPLEMENTING GUIDELINES ON THE STAND-BY CREDIT FACILITY (SCF) FOR ECs POWER ACCOUNTS WITH GENCOs AND MARKET OPERATOR (MO)

## A. ELIGIBILITY CRITERIA:

ECs, which have existing contracts with GENCOs and Market Operator and meet the criteria stated below, may be extended assistance.

- Must have a debt-service ratio of at least 1.2
- Must show substantial compliance on the implementation of its 5-year Plan

## B. CREDIT FACILITY:

AMOUNT: The amount of credit facility shall be equivalent to the average monthly power bill of the EC with the GENCOs and Market Operator

AVAILABILITY: Three (3) months (renewable)

TERMS/CONDITIONS:

- Interest rate of 12% per annum on the amount availed by the EC

- Maximum repayment period of 90 days after each availment

- Default charge of 18% per annum
- Opening of a separate account from which repayment to NEA may be sourced
- Release of availment shall be directly remitted to the depository account of the GENCO/Market Operator
- The Credit Facility shall be terminated in case of non-payment
- NEA reserves the right to approve/ disapprove EC application

## C. REQUIREMENTS:

To avail of the stand-by credit facility, the proponent EC shall be required of the following:

- Board Resolution requesting for the Stand-by Credit Facility
- 12 Month Projected Income Statement and Cash Flow including schedules and Assumptions to projection
- Latest power bill from the GENCO and market Operator

## D. NEA's EVALUATION AND APPROVAL:

The individual stand-by credit facility of the concerned EC shall be for approval by the Administrator, subject to the Board's confirmation.

## E. AVAILMENT OF THE STAND-BY CREDIT FACILITY:

The EC can avail of the credit facility a) in part, provided that succeeding availments shall only be limited to the unavailed portion of the credit line and as long as the EC is current in paying its previous availment; or b) in full amount, however, succeeding availments shall only be allowed if the previous availment had been fully paid. The EC shall deliver a Notice of Borrowing (includes the amount to be released and date of release to the account of the GENCO and/or Market Operator) to NEA thru the AMGD.

AMGD shall process the Notice of Borrowing and shall submit recommendation to the Deputy Administrator for Corporate Resources and Financial Services and the Administrator for the approval of release.

## F. RELEASE OF AVAILMENT:

NEA directs/requires its depository bank to transfer the said amount to the corresponding depository account of the GENCO and/or Market Operator. The GENCO and/or Market Operator shall issue a notice of receipt of payment and NEA shall advise the concerned EC of the transfer of funds and the schedule of payment of the availment/borrowing.

G. FUNDING REQUIREMENT/SOURCE:

Total one month power cost - P3.095B
Funding Requirement (Luzon) (15% of total one month power cost) -P500M
Fund Source may come from accelerated collection from PSALM.

*Approved by the Board*
*February 15, 2005*

## LOAN POLICY NO. 6 G

## POLICY ON TECHNICAL SERVICES TO GENERATION COMPANIES (GENCOs)

### POLICY BACKGROUND:

The passage of RA 9136 (EPIRA Law) provides the privatization of the National Power Corporation of its generation function. The new power provider/supplier needs assurance that the terms of the bilateral contract with ECs shall be met particularly on the immediate payment of the power contracted. Under the EPIRA, NEA shall develop and implement programs to prepare ECs in operating and competing under the deregulated electricity market and to strengthen their technical and financial viabilities.

### POLICY STATEMENT:

NEA may enter into an Agreement with the GENCOs for NEA to undertake the following services:

1) To evaluate the ECs credit worthiness
2) To prepare ECs Financial & Operational Performance
3) To grant Stand-by Credit Facility to individual EC
   Release of availment shall be directly remitted to the depository account of the GENCO for the account of the EC

### EXPIRY:

The Agreement with GENCOs shall have a period of three (3) months, subject to renewal for as long as the EC is not in default with the GENCO.

FEE:

For and in consideration of the services by NEA to GENCOs, a stand-by credit fee shall be charged per month, as follows:

| EC Category | | Rate | |
|---|---|---|---|
| A+/A | - | 10% (1/10 of 1%) | of the approved credit amount |
| B / C | - | 15% (1/7 of 1%) | |
| D / E | - | 25% (1/4 of 1%) | |

*Approved by the Board*
*Date: February 15, 2005*

# LOAN POLICY NO. 6 H

## CREDIT FACILITY FOR THE ECs ACQUISITION OF SUB-TRANSMISSION FACILITIES (69 KV LINES)

### OBJECTIVE:

To establish a credit facility that would finance the equity requirement of ECs in the acquisition of 69 KV lines from NPC/TRANSCO.

### POLICY BACKGROUND:

The EPIRA mandates the disposal of sub-transmission facilities of NPC/TRANSCO to qualified DUs or utilities connected to such sub-transmission facilities not later than two (2) years from the effectivity of the Act, provided, that in the case of ECs, TRANSCO shall grant concessional financing over a period of 20 years. However, the concessional financing of TRANSCO (Lease Purchase Financing Scheme) requires the DUs to pay a minimum down payment of 20% of the total purchase price. Complementary to TRANSCO's Lease Purchase Financing Scheme, the DBP has also a financing program called "Rural Power Project" for the benefit of DUs acquisition of sub-transmission facilities of NPC/TRANSCO which requires a minimum equity participation of 10% of the total project cost.

### POLICY STATEMENT:

NEA may finance the ECs equity requirement up to 20% of the total acquisition cost of the NPC/TRANSCO sub-transmission facilities but not to exceed P15M with the following terms:

- 9% interest rate per annum (8% p.a. – 2 years)
- 18% default charge per annum
- 3 to 5 years repayment period to start one quarter after the release of loan

*Approved by the Board*
*Date: May 19, 2005*

*Updated (A Primer on NEA's Enhance*
*Lending Program for the ECs Sept. 08)*

IMPLEMENTING GUIDELINES
CREDIT FACILITY FOR THE ECs ACQUISITION OF
SUB-TRANSMISSION FACILITIES (69 KV LINES)

## A. ELIGIBILITY CRITERIA:

ECs that meet the criteria stated below may be extended assistance thru loan:

1. Must have a debt-service ratio of 1.2
2. The EC must show capability to pay the proposed loan on top of all other existing obligations
3. With Lease Purchase Agreement with TRANSCO or with an approved Bank Loan

## B. REQUIREMENTS:

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

1. Board Resolution requesting for loan
2. 69 KV Line Profile
   - 2.1. Condition Factor
   - 2.2. Inspection Report of actual structures
3. 5 Year Projected Income Statement and Cash Flow including Schedules and assumptions to projection
4. Lease Purchase Agreement between EC & TRANSCO
5. Indicative Loan Terms with the Bank
6. Issuance of post-dated checks

FUNDS:

To set up an initial P100 Million to be sourced from the NEA Internally Generated Fund (IGF).

NEA's EVALUATION AND APPROVAL:

The individual loan shall be subject to the approval of the Administrator and confirmation by the NEA Board of Administrators.

*Approved by the Board*
*May 19, 2005*

LOAN POLICY NO. 6 I

SHORT TERM CREDIT FACILITY (STCF) FOR ECs' SETTLEMENT OF POWER ACCOUNTS

## OBJECTIVE:

To establish the NEA Short Term Credit Facility (STCF) for Electric Cooperatives (ECs) to finance the ECs monthly shortfall on the settlement of power accounts with the National Power Corporation (NPC) and TRANSCO.

## POLICY BACKGROUND:

The assumption by the Power Sector Assets and Liabilities Management Corp. (PSALM) of the outstanding financial obligations of ECs entails substantial government support that must come hand in hand with meaningful and lasting reforms among the ECs for the purpose of achieving reliable, secure and reasonable electricity for all consumers, particularly in the rural areas.

Said assumption of an EC's RE loan shall be revoked when it continually failed to comply with Sec. 5 of Executive Order 119. One of the conditions set under Sec. 5 is that the EC must be current and continue to be current of its obligations to NPC.

POLICY STATEMENT:

NEA shall assist the ECs to comply with the Program set and approved by the President to ensure assumption of ECs RE loans by PSALM.

ECs which have overdue accounts with NPC/TRANSCO and meet the criteria stated below maybe extended financial assistance:

1. Temporarily experiencing problem in cash flow (Cash deficit)
2. Must have a debt-service ratio of 1.2
3. Must show substantial compliance on the implementation of its 5-year Plan

FACILITIES:

AMOUNT - The maximum amount of credit facility shall be computed as follows:

- Current Month Power Cost (latest MFSR)
- Less: 50% of Ave. Monthly collection
- Add: Ave. Monthly Non-Power Cost
- Maximum Amount of credit facility

TERMS -

- 1% interest rate per month on the amount withdrawn
- Six months credit line
- Payable within 30 days after each availment
- 1.5% default charge per month

- Submission of concrete steps to address cashflow problems
- Rate adjustment application with ERC in case of insufficient rate
- Roundtable assessment for the GM
- Issuance of postdated checks

FUNDS:

To set up an initial P100 Million to fund the STCF to be sourced from the NEA Internally Generated Fund (IGF).

Collections out of these loans shall be deposited to TCF account and shall serve as revolving fund to ensure continuity of the program and availability of funds for ECs that are eligible to avail of the STCF.

REQUIREMENTS:

To avail of the short term credit facility, the proponent EC shall be required of the following:

- Board Resolution requesting for loan
- 12 Month Projected Income Statement and Cash Flow including Schedules and assumptions to projection

NEA's EVALUATION AND APPROVAL:

AMGD shall conduct evaluation of the request immediately after the above requirements have been submitted. Coordination with other NEA Department shall be made by AMGD and the recommendation on the EC's request shall be submitted for approval within five (5) working days.

The individual credit facility of the concerned EC not exceeding P30M shall be submitted to the Administrator for approval, subject to the Board's confirmation.

*Approved by the Board*
*Date: May 27, 2004*

*Amended*
*Date: April 18, 2007*

# IMPLEMENTING GUIDELINES ON THE SHORT TERM CREDIT FACILITY (STCF) FOR ECs SETTLEMENT OF POWER ACCOUNTS

## A. EVALUATION OF THE ECs CREDIT FACILITY:

A.1. The proponent EC shall be required of the following:

- Board Resolution requesting for loan
- 12 Month Projected Income Statement and Cash Flow including Schedules and assumptions to projection

A.2. Upon receipt of the evaluation requirements, AMGD shall review the EC's request and determines the amount of the credit facility.

## B. APPROVAL OF THE ECs CREDIT FACILITY:

B.1. The individual credit facility of the proponent EC not exceeding P30M shall be submitted to the Administrator for approval within five (5) working days upon receipt of the requirements, subject to the confirmation of the NEA Board.

B.2. NEA thru AMGD shall advise the EC in writing the approval/denial of the credit facility application.

B.3. The NEA and EC shall execute a Credit Facility Agreement. Every availment of the Electric Cooperative (EC) shall be covered by a Promissory Note.

## C. EXPIRY:

The short term credit facility shall have a period of six months. Renewal of the credit facility is subject for another evaluation and approval.

## D. AVAILMENT OF THE CREDIT FACILITY:

D.1. The EC can avail of the credit facility in part, in aggregate principal amount or full amount.

D.2. The EC shall deliver a Notice of Borrowing (includes the amount to be released and date of release to the account of NPC/TRANSCO) to NEA thru the AMGD at least two (2) banking days prior to the date of proposed borrowing/date of release.

D.3. AMGD shall process the Notice of Borrowing and shall submit recommendation to the Deputy Administrator for Corporate Resources and Financial Services and the Administrator for the approval of release.

## E. RELEASE OF AVAILMENT/BORROWING:

NEA directs/requests its depository bank to transfer the said amount to the corresponding depository account of NPC/TRANSCO. NPC/TRANSCO shall issue a notice of receipt of payment and NEA shall advise concerned EC of the transfer of funds and the schedule of payment of the availment/borrowing.

## F. INTEREST/CHARGES:

The interest rate of the availment/borrowing is one percent (1%) per month. If the EC fails to pay any principal or interest payable or any sum payable by the EC, the EC shall, on demand by NEA, pay a default charge at the rate of one and half percent (1.5%) per month.

## G. REPAYMENT OF AVAILMENT/BORROWINGS:

G.1. The EC shall repay the availment/borrowing together with interest thereon, within 30 days from release thereof. However, the EC may, at its option, prepay the availment/borrowing in part or in full, together with the accrued interest thereon to the date of repayment.

G.2. All payments by the EC shall be made thru an inter-bank fund transfer/electronic transfer of funds to the account of NEA-STCF Fund without further demand from NEA.

G.3. Amortization payment shall first be applied to the STCF over other existing loans.

*Approved by the Board*
*Date: May 27, 2004*

## LOAN POLICY NO. 6 J

## SERVICE CHARGE ON SHORT-TERM CREDIT FACILITY (STCF)

### OBJECTIVE:

To establish a policy for the application of service fee in the processing of Short-Term Credit Facility (STCF) to help sustain the financial stability of NEA.

### BACKGROUND:

In embracing the concept of an "interest lender" to promote total electrification, NEA, although observed reasonable and prudent financial practices in its lending activities, should, likewise, recognize the need for self-sustaining posture considering the realities of the present time (i.e. increasing administrative cost). NEA Loan Policy No. 2 provides only for the charging of interest rate of 12% per annum on all types of loan. Also, various financing institutions are charging fees on loan (service fee/processing fee/application fee/front-end fee) other than the application of interest.

### POLICY STATEMENT:

NEA shall apply service charge on the processing of Short-Term Credit Facility (STCF) of ECs, as following:

- The service fee shall be equivalent to ½ of 1% or 0.50% of the approved amount of the credit facility
- One-time payment for the six (6) month facility

*Approved by the Board*
*Date: January 24, 2006*

# LOAN POLICY NO. 6 K

# SHORT-TERM CREDIT FACILITY (STCF) GRADUATION POLICY

## OBJECTIVE:

To establish a policy on the graduation of ECs from STCF.

## BACKGROUND:

Pursuant to Sec. 58 (b) of RA 9136 mandating NEA to develop and implement programs to strengthen the technical and financial viability of electric cooperatives, the NEA Board approved the Short Term Credit Facility (STCF) in 2004. The STCF aims to finance the ECs monthly shortfall on the settlement of power accounts with the NPC and TRANSCO in order to enjoy power purchase discount, maintain current status with NPC, and avoid accumulation of power arrearages.

Some ECs are continuously availing the facility in order to generate additional income through the availment of prompt payment discount which will result in the reduction of rate to the consumers; and for others, to strengthen their credit worthiness by being current in the payment of their power bills.

For ECs that are experiencing problems in cashflow and are still in arrears with NPC/TRANSCO despite the availment of STCF, NEA requires concerned ECs to implement concrete steps that will address major areas of concern (i.e. high system loss, low collection efficiency, insufficient rate) and for the GM to undergo round-table assessment. There should also be a timeframe within which these ECs should graduate from the facility. It is in this context that a graduation policy be set in place for these ECs.

## POLICY STATEMENT:

While NEA recognizes that the operational performance of some ECs have been affected by causes beyond their control which necessitates short-term borrowing  from NEA to meet payment of power bills to NPC/TRANSCO, there is a need to set a policy as to until when NEA shall continue providing financial assistance to these ECs.

ECs availing STCF in order to enjoy PPD or to maintain their current status with NPC/TRANSCO shall not be covered by this Policy.

## GRADUATION GUIDELINE:

The renewal of STCF shall be subject to evaluation on the progress made by the EC particularly on the area of system loss, collection efficiency and ability to meet maturing obligations vis-a-vis the set targets in the improvement plan.

The graduation of ECs from STCF shall be based on mutually (NEA and EC) agreed timetable taking into consideration the ECs improvement plan, otherwise the following schedule of graduation shall be followed:

| Problem | Graduation from STCF |
|---|---|
| Unrecovered legitimate cost (i.e. taxes, CAPEX, loan amortization);<br>System loss is above the 14% cap; and<br>Ave. Collection Period is 45 days and above | Maximum of three (3) renewals to give EC sufficient time to address operational problems. |
| Unrecovered legitimate cost (i.e. taxes, CAPEX, loan amortization);<br>System loss is above the 14% cap; and<br>Ave. Collection Period is within the standard of 45 days | Maximum of two (2) renewals to give EC sufficient time to address operational problems. |
| Unrecovered legitimate cost (i.e. taxes, CAPEX, loan amortization);<br>System loss is within the 14% cap; and<br>Ave. Collection Period is within the standard of 45 days | Maximum of one (1) renewal. |
| Hit by Typhoon and other calamities | Within 6 months after normal revenue level is attained but not to exceed three (3) renewals. |

IMPLEMENTATION:

The Administrator is responsible in implementing this policy. The Administrator is authorized to approve the exemption of EC from the graduation schedule based on its justification(s).

This policy shall be effective immediately upon approval.

*Approved by the Board*
*Date: June 15, 2007*

# LOAN POLICY NO. 10

# LOAN SECURITY

## OBJECTIVE:

To define conditions for requiring security for loans.

## POLICY BACKGROUND:

Loans are granted on either a clean or secured basis. Clean loans are generally granted to borrowers who are considered good or safe risks, that is, the chances of loan repayment are high. Secured loans, on the other hand, are usually demanded of high risk, unknown or “untested” borrowers. Security will usually come in the form of a real estate or chattel mortgage.

Project financing or long-term loans, however, usually require collaterization of the machinery and equipment which have been principally financed by the loan and are the basic inputs to the project. Full or partial collaterization may be required and the loan covenants specify the levels of such collaterization at different stages of the project life.

NEA’s Rural Electrification loans are essentially project financing loans and carry loan mortgage contract agreements on the materials and equipment released to the ECs. There are no guidelines, however, on the extent of collaterization required per loan. The level of collaterization throughout the life of the project is therefore not also monitored. These deficiencies require corrective measures that are addressed by this policy.

POLICY STATEMENT:

Loans are to be granted on a secured basis. Security requirements, especially for RE loans, will be specified and the value of the mortgaged property as a percentage of the loan level shall be closely monitored throughout the life of the loan as a function of the appraisal process.

*Approved by the Board*
*Date: May 13, 1991*

LOAN POLICY NO. 13

RESTRUCTURING

OBJECTIVE:

To define a policy that will allow distressed ECs to recover through financial restructuring.

POLICY BACKGROUND:

The operational viability of some ECs has been affected to a large extent by causes beyond their control thus resulting in their distressed financial conditions. As a consequence, payments on maturing loan obligations have not been met and resulting arrearages have accumulated without immediate prospects of repayment.

POLICY STATEMENT:

NEA will consider loan restructuring of affected ECs which must, however, meet the following qualifications:

1. ECs must show capability of meeting both operational costs and amortization on the restructured loan in addition to meeting current amortization on other loans;

2. ECs with tariffs inadequate to recover applicable costs and reserves must show capability of improving such rates to an acceptable level in

conjunction with the restructuring so that they shall retain viability.

Restructuring the loan obligations of these ECs will necessarily entail varying approaches tailored to the specific requirements of each of these ECs.

Prevailing interest rates as prescribed in Loan Policy No. 2 shall apply on all restructured loans.

*Approved by the Board*
*Date: May 13, 1991*

# REVISED IMPLEMENTING GUIDELINES ON LOAN RESTRUCTURING

## POLICY BACKGROUND:

The operational viability of some electric cooperatives has been affected to a large extent by causes beyond their control that impaired their capabilities to pay amortizations due on their loans with NEA. In addition, a number of ECs stopped payment of their loan amortizations to NEA even before the issuance by the ERC of the Provisional Authority to reduce rates due to loan condonation.

NEA recognizes that some ECs cannot immediately pay the whole amount of loan arrearages due to the adverse effect on their working capital. NEA, may, therefore, allow the restructuring of the said arrearages/outstanding loans based on the following Revised Implementing Guidelines on Loan Restructuring.

## ELIGIBILITY CRITERIA:

1. With Debt service ratio of at least 1.2:1

2. Current status in the payment of power accounts with NPC and TRANSCO, or with approved Special Payment Arrangement (SPA).

3. The EC is operating within the approved Cash Operating Budget, and capital expenditures should be in accordance with the approved work plan.

TERMS:

9% interest rate per annum (8% p.a. – 2 years)
Maximum of 15 years repayment period (depends on the financial capability of the EC)
15% penalty rate per annum
Attainment of key performance indicators

NEA's EVALUATION AND APPROVAL:

1. The amount of unpaid interest and surcharges shall be capitalized and shall form part of the unpaid principal which shall become the restructured loan.

2. Repayment period of not more than five (5) years for restructured loan shall be for approval by the Administrator and confirmation by the NEA Board. The NEA Board shall approve loan restructuring by ECs with more than five (5) years repayment period.

3. NEA may accelerate the repayment period of amortization if the financial condition of the EC warrants.

4. In case of default in the payment of amortization under the loan restructuring for a period of two (2) quarters, NEA may undertake any or all of the following:

   a. Suspension of loan releases or any further assistance or application of such other remedies as provided by law

   b. Appointment of a Project Supervisor and/or Acting General Manager

   c. Suspension/removal and replacement of any or all of the members of the EC Board of Directors, General Manager, other Officers and employees

d. Appearance of the EC Board, General Manager and Officers before the NEA Board

REQUIREMENTS:

1. Board Resolution requesting for loan restructuring.

2. Justification for the incurrence of arrearages and/or reasons for restructuring.

3. Commitment of the EC's Board, Management and Employees to further improve operational efficiency to be able to attain the terms and conditions of the loan restructuring.

4. Projected Income Statement and Cash Flow complete with supporting schedules and assumptions.

5. 5- Year Global Competitiveness Plan/PIP/REP.

6. Issuance of postdated checks equivalent to a year's amortization payment.

*Approved by the Board*
*Date: July 29, 2004*

*Amended*
*Date: April 18, 2007*

*Update (A Primer on NEA's Enhance Lending Program for the ECs Sept. 08)*

# GUIDELINES ON SUBSEQUENT LOAN RESTRUCTURING

NEA may allow, in extreme cases, subsequent restructuring of ECs loan, upon presentation of strong justifications, such as:

a) There is an unforeseeable reduction in revenue by at least 20%
b) The EC needs huge capital outlay in order to comply to the grid/distribution code and WESM
c) Adverse long term effect on the operations of ECs as a result of major calamities (i.e. aftermath of Mt. Pinatubo eruption) and such other similar causes that the Board may find meritorious

## ELIGIBILITY CRITERIA:

Aside from the eligibility criteria for the first restructuring of loans, ECs applying for subsequent restructuring have to meet additional conditions, as follows:

a) Evaluation of GM's performance must pass NEA's rating
b) Cash advances must be within the allowable level
c) No adverse audit findings
d) There is no diversion of provision for NEA amortization to any other purpose
e) Has consistently been complying with all NEA guidelines and issuances.

*Approved by the Board*
*Date: September 21, 2004*

# LOAN POLICY NO. 14

# BORROWINGS FROM SOURCES OTHER THAN NEA

## OBJECTIVE:

To define limits for borrowings from sources other than NEA.

## POLICY BACKGROUND:

Section 5 of P.D. 1645 states thus: “No Cooperative shall borrow money from any source without the Board of Administrators’ prior approval: Provided, that the NEA Board, by appropriate rule or regulation, grant general permission to cooperatives to secure short-term loans not requiring the encumbrance of their real properties or of a substantial portion of their other properties or assets.”

## POLICY STATEMENT:

NEA will consider requests by ECs for authorization to contract loans with sources other than NEA under the following guidelines:

1. The purpose of the loan request is deemed reasonable and appropriate;

2. The terms and conditions of the loan are considered fair and equitable;

3. Such ECs are in strong financial condition and there is evidence that such additional borrowings shall not

endanger this condition or financial performance targets established by NEA;

4. Materials, equipment and other property mortgaged to NEA may not be offered as collateral to other lenders;

NEA recognizes the need to source non-traditional fund providers to support the growing requirements of the ECs and looks favorably towards ECs which shall be able to source such lenders and prove them capable of absorbing these loans on their own merit.

*Approved by the Board*
*Date: May 13, 1991*

## LOAN POLICY NO. 14 A

## POLICY ALLOWING ELECTRIC COOPERATIVES (ECs) TO SECURE SHORT TERM LOANS FROM SOURCES OTHER THAN NEA

### OBJECTIVE:

To establish a policy allowing ECs to secure Short Term Loans from sources other than NEA.

### POLICY BACKGROUND:

A number of ECs have been operating primarily on loans from NEA such that even the biggest single factor in their rate structure which is the power cost, cannot be paid on time. In the sincere effort of NEA to help ECs improve their systems and operations as well as their finances, a policy allowing ECs to secure short term loans from sources other than NEA is hereby proposed.

### POLICY STATEMENT:

Pursuant to Sec. 5 of P.D. 1645, the Electric Cooperatives (ECs) may secure short term loans with sources other than NEA like banks, financing companies and other established financial intermediaries under the following guidelines:

1. The purpose of the loan is deemed reasonable and appropriate: e.g.

a. to augment monthly collection deficiencies to pay NPC power bills;
b. for ECs working capital requirements;
c. for the purchase of maintenance vehicles

2. The terms and conditions of the loans are considered fair and equitable, thus:

   a. repayment period shall not exceed 3 years
   b. interest rate shall be reasonable; if possible it shall be the prime rate
   c. amount of loan shall not exceed three (3) times the EC's average monthly NPC billings.

3. No encumbrance of real properties or of a substantial portion of other properties or assets will be made by the ECs.

4. For monitoring purposes, ECs which have secured short term loans within the context of this policy shall, within thirty days (30) from execution furnish NEA copies of pertinent loan documents/arrangements, and Coop Board Resolution authorizing such credits.

*Approved by the Board*
*Date: October 28, 1993*

## LOAN POLICY NO. 14 B

## POLICY AUTHORIZING THE ADMINISTRATOR TO GRANT ECs WITH CLEARANCE TO AVAIL LOANS FROM OTHER SOURCES FOR REHABILITATION/UPGRADING OR FOR RURAL ELECTRIFICATION INVESTMENT PROJECTS

### POLICY BACKGROUND:

1. A number of ECs have been requesting for NEA's clearance to avail loans from other sources to finance system rehabilitation/upgrading or for Rural Electrification Investment Projects.

2. NEA Loan Policy No. 14-A (Annex 1) allows ECs to secure short-term loans from other sources other than NEA purposely for payment of NPC power bills, for working capital requirements and for the purchase of maintenance vehicles, provided that no encumbrance of real properties or of a substantial portion of other properties or assets will be made by the ECs.

3. The NEA Board of Administrators, however, adopted a policy allowing collateral sharing in accordance with its Board Resolution No. 54 of August 21, 2002 (Annex 2) for ECs to avail loans from other sources in order to meet the service standards of a utility enterprise and thereby operate and compete in the deregulated electricity market.

POLICY STATEMENT:

1. To authorize the Administrator to grant the ECs with clearance to avail loans from other sources, subject to the Board's confirmation, under the following guidelines:

   a) The purpose of the loan is for rehabilitation/upgrading or for rural electrification investment projects;

   b) Amount of loan shall not exceed P30M;

   c) Repayment period shall not exceed five (5) years;

   d) ECs must show capability of meeting both operational costs and amortization of the proposed loan on top of all existing obligations including NPC accounts and current amortization with NEA;

   e) Conditions and requirements of the Policy on Collateral Sharing (per NEA Board Resolution No. 54 of August 21, 2002) shall be met; and

   f) The proposed loans shall be subject to the evaluation of the Accounts Management Department

2. Proposed loans from other sources without encumbrance of mortgaged properties be subject to the approval of the Administrator provided the guidelines under paragraph 4.a, b, c, d and f are complied with.

3. Other loan proposals which do not qualify within the context of this policy shall be submitted to the Board of Administrators for approval.

*Approved by the Board:*
*Date: October 7, 2002*

# LOAN POLICY NO. 14 C

# POLICY ON COLLATERAL SHARING

## OBJECTIVES:

To define the manner by which lien on the properties of the Electric Cooperatives mortgaged to NEA may be shared with other banks and financial institutions.

## POLICY BACKGROUND:

The Electric Cooperatives are in constant need of long-term funds for rehabilitation and upgrading investment projects in order to meet the service standards of a utility enterprise. While in the past, the Electric Cooperatives are allowed to borrow funds from sources other than NEA subject to the NEA Board of Administrator's approval, these borrowings are mostly for short-term requirements. Section 9 of PD 269 provides that the NEA Board of Administrators is authorized, among others, whenever in its judgment, such is necessary or desirable to achieve the purpose of the decree, to release any after acquired property clause contained in any lien the NEA holds, or to share any such lien on co-equal basis or to subordinate any lien in favor of any other lender of funds to public service entity particularly the Electric Cooperatives.

## POLICY STATEMENT:

Upon the request of the Electric Cooperatives borrowing from sources other than NEA, the Board of Administrators may share the lien on co-equal basis in proportion to the respective claim for loan principal, accrued but unpaid interest, collection cost and prepayment premium on such properties of the Electric Cooperatives mortgaged to NEA subject to the following conditions and requirements:

1. The purpose of the EC's borrowing is for revenue enhancement, performance improvement projects, rehabilitation and upgrading projects or for rural electrification investment projects within the approved medium term plan of the Electric Cooperative.

2. Appraisal of the assets of the EC has been conducted in the last three years in accordance with Loan Policy 24–Appraisal of Mortgaged Properties.

3. The total outstanding loans of the EC including the outstanding balance of loans assumed by PSALM (except Mini-hydro and Dendro Thermal loans) must not exceed 70% of the revalued net utility plant in service. If the total outstanding loans exceed this limit, the NEA Board of Administrators and PSALM may allow sharing of collateral on a case to case basis.

4. The requirements of the provision of Section 9 of P.D. 269 have been fully met in the sense that the proposed loan from the Non-NEA Lenders is, in the judgment of the NEA board of Administrators, (i) necessary or desirable to achieve the total electrification of the Philippines on an area coverage service basis, (ii) necessary to make or keep the EC's project operationally viable, (iii) necessary or desirable to enable the EC to accomplish the purposes for which it has already received a NEA loan, and (iv) the Non-NEA loan will not result in any diminution of the security of the

ability of the EC to repay any of its outstanding indebtedness below the level of such security and ability were additional borrowings from a Non-NEA Lender not undertaken.

5. In case the loan to be secured by the EC's or by investors in EC's under Investment Management Contract would require guarantee, the Guarantor of the said loan shall be included as party to the Mortgage Sharing Indenture. The rights and obligations of the Guarantor who may be subrogated to the rights of the Non-NEA Lender upon guarantee call shall be specified on the MSI.

6. The EC shall at all times be compliant with the Energy Regulatory Commission rules on the collection and remittance of universal charges.

*Approved by the Board*
*Resolution No. 54*
*Date: August 21, 2002*

*Amended*
*Date: June 25, 2004*

*Amended*
*Date: June 14, 2006*

# IMPLEMENTING GUIDELINES
# ON THE POLICY ON COLLATERAL SHARING

Pursuant to the National Electrification Administration (NEA) Board of Administrators' Resolution No. 54 dated 21 August 2002 approving the policy by which lien on the properties of the Electric Cooperatives (ECs) mortgage to NEA may be shared with other banks and other financial institutions (the "Non-NEA Lenders"), the following implementing guidelines are hereby issued:

## RATIONALE:

Electrification is a very expensive undertaking. The ECs are in constant need of long term funds to finance electrification projects specially rehabilitation and upgrading of its distribution system. In the past, the NEA financed almost 90% of the ECs funding requirements. Consequently, all properties of the ECs are mortgaged to NEA.

With the passage of Electric Power Industry Reform Act (EPIRA) of 2001, the NEA was given additional mandate to develop and implement programs to prepare the ECs in operating and competing under the deregulated electricity market within five (5) years from the effectivity of the said Act and to strengthen the technical capacity and financial viability of ECs. However, the NEA has limited financial resources to support this mandate. The ECs must resort to borrowing from sources outside of NEA. These resources require collateral. Thus, EC properties mortgaged to NEA will have to be shared with Non-NEA Lenders.

SCOPE:

These implementing guidelines shall govern the process to be followed when ECs apply for approval to borrow funds from Non-NEA Lenders which require the sharing of EC's properties mortgaged to NEA. The term "Non-NEA Lenders" shall be deemed to include an investor and/or lender to such investor under the Investment Management Contract compliant with DOE Circular No. DC 2004-06-007; and provided that such loan proceeds are used exclusively for EC projects that reduce system losses and improve overall performance and efficiency.

GENERAL REQUIREMENTS:

Upon the request of the ECs borrowing from sources other than NEA, the NEA may share the lien on pari-passu and co-equal basis in proportion to the respective claim for loan principal, accrued but unpaid interest, collection cost, repayment premium and penalties, if any, on such properties of the ECs mortgaged to NEA subject to the following conditions and requirements:

1. The purpose of the EC's borrowing is for revenue enhancement, performance improvement projects, rehabilitation and upgrading projects or for rural electrification investment projects within the approved medium term plan of the Electric Cooperative.

2. Appraisal of the assets of the EC has been conducted in the last three years in accordance with Loan Policy 24 – Appraisal of Mortgaged Properties.

3. The total outstanding loans of the EC including the outstanding balance of loans assumed by PSALM (except Mini-Hydro and Dendro Thermal loans) must not exceed 70% of the revalued net utility plant in service. If the total outstanding loans exceed this limit, the NEA Board of Administrators and PSALM may allow sharing of collateral on a case to case basis.

4. The requirements of the provision of Section 9 of P.D. 269 have been fully met in the sense that the proposed loan from the Non-NEA Lenders is, in the judgment of the NEA Board of Administrators, (i) necessary or desirable to achieve the total electrification of the Philippines on an area coverage service basis, (ii) necessary to make or keep the EC's project operationally viable, (iii) necessary or desirable to enable the EC to accomplish the purposes for which it has already received a NEA loan, and (iv) the Non-NEA loan will not result in any diminution of the security of the ability of the EC to repay any of its outstanding indebtedness below the level of such security and ability were additional borrowings from a Non-NEA Lender not undertaken.

5. In case the loan to be secured by the EC's or by investors in EC's under Investment Management Contract would require guarantee, the Guarantor of the said loan shall be included as party to the Mortgage Sharing Indenture. The rights and obligations of the Guarantor who may be subrogated to the rights of the Non-NEA Lender upon guarantee call shall be specified on the MSI.

6. The EC shall at all times be compliant with the Energy Regulatory Commission rules on the collection and remittance of universal charges.

DOCUMENTARY REQUIREMENTS:

An EC borrowing funds from the Non-NEA Lender for which sharing of EC properties mortgaged to NEA is required, shall submit an application for clearance/approval to Accounts Management & Guarantee Department (AMGD) together with the following documents:

1. EC Board Resolution requesting NEA to share mortgaged properties and collateral to their loan application with the Non-NEA Lenders;

2. Duly certified audited financial statements of the EC for the last two (2) years;

3. Appraisal report prepared by a recognized and independent consultant/appraisal company accredited by NEA conducted in the last three years;

4. Details of loan application with the Non-NEA Lender including economic, technical and financial studies.

DEFAULT OF EC:

In case NEA takes action as a result of default on loans of an EC that has availed itself of collateral sharing, NEA agrees to include the approved secured non-NEA lender in their action to settle such shared loan.

## NEA's EVALUATION AND APPROVAL:

AMGD shall conduct evaluation of the request immediately after the above requirements have been submitted. Coordination with other NEA departments shall be made by AMGD, and the recommendations on the EC's request shall be submitted by AMGD to the NEA Deputy Administrator for Corporate Resources and Financial Services within 30 calendar days from AMGD's receipt of the aforementioned documentary requirements.

The Deputy Administrator for Corporate Resources and Financial Services shall act on the aforesaid recommendations decide on whether to deny or endorse the same, and in case he or she decides to endorse said recommendations, he or she shall endorse the same to the NEA Board of Administrators, through the NEA Administrator, for approval, all within 10 calendar days from receipt thereof.

## MORTGAGE SHARING INDENTURE (MSI):

Upon approval of the EC's aforesaid request by the NEA Board of Administrators, the EC shall execute a Mortgage Sharing Indenture (MSI) in favor of NEA and the Non-NEA lender. Upon execution of an MSI by all parties, NEA shall effect the cancellation and/or amendment of applicable existing mortgages, the cost of which shall be chargeable to the concerned EC.

NON-NEA LENDER RIGHTS:

Every Non-NEA Lender approved for collateral sharing pursuant to these Implementing Guidelines shall be allowed to implement additional requirements for loans in accordance with its rules, policies and regulations. However, the collateral sharing agreement does not give the Non-NEA lender the authorization to further use as collateral for any loan the EC properties subject of the collateral sharing agreement.

*Approved by the Board*
*Resolution No. 53*
*Date: Sept. 5, 2003*

*Amended*
*Date: June 14, 2006*

# LOAN POLICY NO. 18

# RATING THE ECs

## OBJECTIVE:

To establish a system to identify, monitor, evaluate and mitigate risks in loan exposure to the ECs.

## POLICY BACKGROUND:

Banks generally provide for a loan review function that is entrusted with the continual review of all significant credit exposures so that a loan portfolio of exceptional quality is maintained at all times. The process involves a thorough evaluation of all the aspects of the lending relationships - - - - payment performance, compliance with documentation requirements, financial condition, immediate prospects of either improvement or deterioration. The result is a quality rating system.

Because of the unique nature of NEA's clientele, that is, lending to a specialized sector – the ECs, a loan review system as described may appear inapplicable because of the intricate web of relationships among consumers, the ECs' locations, operational deficiencies and resulting financial problems over which management may have only limited control. Nevertheless, a quality rating system is deemed urgent so that an overall monitoring of the entire EC network can be achieved.

POLICY STATEMENT:

A rating system that considers the institutional, financial and technical aspects of the EC operations is to be regularly undertaken. It shall provide management with a tool for monitoring the ECs' credit standing and overall performance and become a significant factor in evaluating loan applications.

*Approved by the Board*
*Date: May 13, 1991*

# REVISED CRITERIA FOR CATEGORIZATION OF ELECTRIC COOPERATIVES (ECs)

## RATIONALE:

The annual categorization of ECs is conducted to evaluate their operating performance based on established criteria. This set of categorization criteria was revised in order to be responsive to the present challenge posed upon the NEA and the ECs to operate viably in a deregulated environment as provided for in the Electric Power Industry Reform Act of 2001 (R.A. 9136). Accordingly, additional criteria are introduced to address concerns of the member-consumers as well as to help attain the NEA's mandate of total electrification.

## CATEGORIZATION CRITERIA: FACTORS AND SCORING SYSTEM:

1. <u>AMORTIZATION PAYMENT TO NEA</u>

   This pertains to the ability of the ECs to fulfill their obligations with NEA in terms of payment of their respective amortizations due.

   Performance rating for loan amortizations shall be determined on a quarterly basis and the average of the four (4) ratings shall be the final annual rating for loan amortization.

## 1.1 MAJOR CRITERIA

| | POINT SCORE | |
|---|---|---|
| STATUS OF PAYMENT | REGULAR | RESTRUCTURED |
| Current to date | 20 pts. | 15 pts. |
| Up to 1 qrtr. overdue | 15 | 10 |
| Up to 2 qrtrs. overdue | 10 | 5 |
| Up to 3 qrtrs. overdue | 5 | 0 |
| Up to 4 qrtrs. overdue | 0 | -2 |
| Up to 5 qrtrs. overdue | -2 | -4 |
| Up to 6 qrtrs. overdue | -4 | -6 |
| Up to 7 qrtrs. overdue | -6 | -8 |
| Up to 8 qrtrs. overdue | -8 | -10 |

## 1.2 DEFINITION

1.2.1 **Regular** – ECs without restructured account with NEA and ECs with restructured unpaid interest up to the time of loan assumption by PSALM.

1.2.2 **Restructured** – ECs with approved restructured loans.

## 1.3 INCENTIVE POINTS FOR ADVANCE OR EXCESS AMORTIZATION PAYMENT

ECs which are able to pay advance amortization or which have excess payment to NEA are given one (1) point for every quarter advance payment but not to exceed five (5) points. The incentive point shall apply to both the regular and restructured ECs. Incentive point for ECs with excess payment shall be based on latest EQA.

## 2. SYSTEM LOSS

This pertains to the ability of the ECs to reduce the power losses in their electric system.

### 2.1 FORMULA

$$\text{System Loss} = \frac{\text{Energy Input} - \text{Energy Output}}{\text{Energy Input}} \times 100$$

Energy Input = Energy Purchased + Energy Generated

Energy Output = Energy Sales + Energy Recovered + Energy Used by the EC

### 2.2 DEFINITION

**Energy Purchased -** The total energy (in kWh) purchased by the EC from power supplier(s).

**Energy Generated -** The total energy (in kWh) generated by the power plant of the EC.

**Energy Sales -** The total energy or electric consumption (in kWh) of the consumers as read from their billing meters. For minimum bill consumers, only the actual kWh consumption as read from their billing meters shall be considered.

Energy Recovered - The energy (in kWh) not registered in the consumers' billing meters but were recovered later due to corrective measures undertaken by the EC. The energy recovered shall be considered in the computation of systems loss only upon full payment by the concerned consumers and that the energy was recovered within the same year in review as that of the occurrence of the erroneous billing or pilferage.

Energy used by the Electric Cooperative - The total energy consumption (in kWh) of the EC's facilities as read from its billing meters.

2.3 MAJOR CRITERIA

| SYSTEM LOSS | POINT SCORE |
|---|---|
| 9% and below | 25 |
| 10% | 24 |
| 11% | 23 |
| 12% | 22 |
| 13% | 21 |
| 14% | 20 |
| 15% | 5 |
| Above 15% | 0 |

### 2.4 INCENTIVE POINTS FOR SYSTEM LOSS REDUCTION

a. 2 points for every 1% reduction in system loss from 9%.

b. 1 point for every 1% reduction in system loss for ECs with system loss above 15%.

Provided, that such incentive points will not exceed 5 points and provided further, that the over-all total score for an EC does not go beyond 100 points.

## 3. COLLECTION EFFICIENCY

This item refers to the capability of ECs to collect consumer accounts receivables. While the EC may be performing well in other aspects of operations, its inability to collect receivables on time will affect its financial position.

### 3.1 FORMULA

$$\text{Collection Efficiency} = \frac{\text{Collection for the Year}}{\text{Gross A/R Beg.} + \text{Gross Sales for the Year} - \text{Gross Current Mo. Sales}}$$

3.2 DEFINITION

Gross A/R Beg., Gross Sales and Gross Current Mo. Sales are inclusive of 5% reinvestment.

Gross A/R Beg. is inclusive of allowance for doubtful account.

3.3 CRITERIA

| COLLECTION EFF. | SCORE | COLLECTION EFF. | SCORE |
|---|---|---|---|
| 95% & above | 15 pts. | 87% | 7 pts. |
| 94% | 14 | 86% | 6 |
| 93% | 13 | 85% | 5 |
| 92% | 12 | 84% | 4 |
| 91% | 11 | 83% | 3 |
| 90% | 10 | 82% | 2 |
| 89% | 9 | 81% | 1 |
| 88% | 8 | 80% & below | 0 |

4. PAYMENT TO POWER SUPPLIER AND NATIONAL TRANSMISSION CORPORATION (TRANSCO)

These are the biggest expenses the coop has to promptly settle on time so as not to incur additional surcharges and other penalties and ultimately, disconnection.

| Status | Main Grid | | | | Island EC | |
|---|---|---|---|---|---|---|
| | GENCO | | TRANSCO | | GENCO | |
| | WITH OUT | WITH | WITH OUT | WITH | WITH OUT | WITH |
| | RESTRUCTURING | | RESTRUCTURING | | RESTRUCTURING | |
| Current | 10 | 8 | 5 | 4 | 15 | 12 |
| 1 Mo. Overdue | 8 | 5 | 4 | 2 | 12 | 7 |
| 2 Mos. Overdue | 5 | 0 | 2 | 0 | 7 | 0 |
| 3 Mos. Overdue & above | 0 | -3 | 0 | -2 | 0 | -5 |

## 5. NON-POWER COST

In order to encourage the ECs to continue their non-power expenditures within the limits set by the NEA-approved budget in relation to actual collections, appropriate points are given to ECs depending on how these expenditures match with the approved budget level.

| BUDGET COMPLIANCE | SCORE |
|---|---|
| Within approved budget | 10 pts. |
| Above approved budget by 1% | 8 |
| 2% | 6 |
| 3% | 4 |
| 4% | 2 |
| 5% & above | 0 |

## 6. SYSTEM RELIABILITY

### 6.1 SYSTEM AVERAGE INTERRUPTION FREQUENCY INDEX (SAIFI)

SAIFI is the total number of sustained customer power interruptions within a given period divided by the total number of customers served within the same period.

$$\text{SAFI} = \frac{\text{Total number of sustained customer power Interruptions served within the same period}}{\text{Total number of customers served}}$$

NEA Standard: 0.8 - 1.3 interruptions/customer

## 6.2 SYSTEM AVERAGE INTERRUPTION DURATION INDEX (SAIDI)

SAIDI is the total duration of sustained customer power interruptions within a given period divided by the total number of customers served within the same period.

$$\text{SAIDI} = \frac{\text{Total number of customer interruption duration}}{\text{Total number of customers served}}$$

NEA Standard: 70 - 90 minutes/customer

## 6.3 MOMENTARY AVERAGE INTERRUPTION FREQUENCY INDEX (MAIFI)

MAIFI is the total number of momentary customer power interruptions within a given period divided by the total number of customers served within the same period.

MAIFI = Total number of momentary customer power interruptions / Total number of customers served

$$\text{MAIFI} = \frac{\text{Total number of momentary customer power interruptions}}{\text{Total number of customers served}}$$

NOTE: Interruptions not exceeding 5 minutes are considered momentary

NEA Standards: less than 3 minutes

## 6.4 REFERENCES

1. Section 3.3 of the Distribution Code
2. Engineering Bulletin DX 1130 “Service Reability”
3. Monthly Engineering Report

## 6.5 CRITERIA

| SAIFI Interruptions/ Customer | Pt. | SAIDI Minutes/ Customer | Pt. | MAIFI Interruptions/ Customer | Pt. | Total Points |
|---|---|---|---|---|---|---|
| 0.80 and below | 2 | 70 and below | 2 | 1 and below | 1 | 5 |
| 0.81 - 0.93 | 1.5 | 71 - 75 | 1.5 | 1.1 - 1.75 | 0.75 | |
| 0.94 - 1.06 | 1.0 | 76 - 80 | 1.0 | 1.76 - 2.25 | 0.5 | |
| 1.07 - 1.19 | 0.5 | 81 - 85 | 0.5 | 2.263 | 0.25 | |
| 1.2 - 1.30 | 0.25 | 86 - 90 | 0.25 | Above 3 | 0 | |
| Above 1.30 | 0 | Above 90 | 0 | | | |

## 7. BARANGAY ENERGIZATION

This criterion is in line with NEA's mandate of total electrification and the government's target of 100% barangay energization by 2008.

### 7.1 MAJOR CRITERIA

| LEVEL OF ENERGIZATION % | SCORE |
|---|---|
| 100 | 5 |
| 90 - 99 | 4 |
| 80 - 89 | 3 |
| 60 - 79 | 2 |
| 40 - 59 | 1 |
| Below 40 | 0 |

### 7.2 INCENTIVE POINTS

ECs which are able to energize barangays during the period under review shall be given one (1) point for every ten (10) barangays energized but not to exceed two (2) points, provided, that the total point score for this criterion shall not exceed five (5) points.

## 8. DEMERIT POINTS

Cash Advances to Officers & Employees

As a measure to discourage the ECs from granting excessive cash advances to officers and employees and to encourage them to strictly effect immediate liquidation of the same, one (1) point is deducted for every P50,000 unliquidated cash advances at the end of the year in review but not to exceed 20 demerit points.

Cash Advances charged back due to audit disallowances shall have a one time demerit point deduction provided there is a 20% payment/reduction in the original amount disallowed, in which case the remaining balance should be reclassified to Other Receivables account (143). If not, the balance will remain in the Cash Advances (145) account.

9. <u>OVER-ALL SCORING SYSTEM</u>

| SCORE | CATEGORY | ADJECTIVAL RATING |
|---|---|---|
| 90 & above | A+ | Outstanding |
| 75 - 89 | A | Very Satisfactory |
| 65 - 74 | B | Satisfactory |
| 55 - 64 | C | Fair |
| 30 - 54 | D | Poor |
| 29 below | E | * |

* ECs under this Category are those which have not shown any improvement in their operations.

10. The general rule of rounding off figures will be followed except for amortization payment and cash advances.

11. ECs are required to coordinate with the Institutional Development Department regarding all data pertinent to categorization not later than the 15th of February of the following year.

    Request for reconsideration after such date shall no longer be entertained for categorization purposes.

12. The ECs Categorization for the first sixth months of every year shall also be conducted to serve as an advisory to ECs but will not be used as basis for any adjustments in officials/employees benefits.

13. <u>EFFECTIVITY</u>

    These revised criteria shall be applied in the evaluation of ECs performance starting 2005 operation.

# LOAN POLICY NO. 21

# FORECLOSURE AND RECEIVERSHIP

## OBJECTIVE:

To adopt a definite course of action designed to preserve the value of mortgaged properties.

## POLICY BACKGROUND:

The NEA Charter and the terms and conditions of the loan contracts provide for certain remedies in cases of defaults in the payment of the loan obligations as well as in cases of mismanagement or breach in the rules, regulations or even the terms of the agreement. In these instances, NEA is provided with the power to take over the management or, in appropriate cases, dissolve the ECs, dismiss the members of the Board, and as far as the properties are concerned, institute foreclosure proceedings. While all of these remedies generally serve to protect the interest of NEA, it is submitted that a more specific course of action insofar as preserving the value of the assets or properties covering the loans be adopted.

## POLICY STATEMENT:

Foreclosure is a legal remedy pursued by a creditor upon default in loan repayment, usually resulting in the creditor gaining possession of the mortgaged properties after legal formalities have been complied with. In the case of NEA, foreclosure would result in NEA acquiring ownership of materials and equipment released to the ECs through loans. Although this remedy would tend to settle the matter of loan extinguishment, the immediate concern of preserving materials, equipment and other mortgaged properties must be appropriately addressed. In this regard, the concept of receivership must be adopted, whereby NEA shall appoint a temporary receivership of the defaulting EC. The receiver shall be responsible for the proper maintenance of the materials and equipment of the EC, their efficient functioning, the regular collection of revenues for the EC, and such other functions as may be assigned by NEA, which shall assume the overall management of the defaulting EC, pending foreclosure and/or the institution of other remedies. NEA will seek to limit its tenure as manager of the last resort, and will actively solicit alternative ownership/management options for the insolvent EC.

The NEA Charter presently constrains NEA from appointing a receiver. Until such time that the Charter is amended, NEA shall apply the concept of receivership through an “Assignee” in a Deed of Assignment, with the same powers and responsibilities of an ordinary receiver.

*Approved by the Board*
*Date: May 13, 1991*

# LOAN POLICY NO. 22

# ANALYSIS OF FINANCIAL STATEMENTS

## OBJECTIVE:

To define requirements for financial analysis.

## POLICY BACKGROUND:

All evaluations of loan applications from ECs must be accompanied by an analysis of recent financial statements. Oftentimes, this is not possible, as access to information necessary to prepare a comprehensive analysis is not available. It is incumbent upon the account officer to ensure that accurate financial information is obtained so that the Board of Administrators will be able to make sound decisions.

Aside from the need for accuracy of financial statements, it is also important that such statements be current in nature. Financial analysis of ECs in loan applications should therefore be based on statements that are not older than seven months.

## POLICY STATEMENT:

Audited financial statements are required annually and should be received and analyzed within six months from the end of the EC's financial year. Unaudited statements should always be obtained whenever necessary.

*Approved by the Board*
*Date: May 13, 1991*

# LOAN POLICY NO. 23

# PROJECT FEASIBILITY STUDIES

## OBJECTIVE:

To prescribe a basic requirement for loan evaluation.

## POLICY BACKGROUND

The preparation of a complete Project Feasibility Study (PFS) shall be a basic requirement in the evaluation of a Rural Electrification (RE) loan. No RE loan applications will be evaluated in the absence of a PFS.

At a minimum the PFS will have the following contents:

1. Economic profile of location;

2. Current status of EC operations including power purchase charges, customer tariffs, non-power operating costs, technical and non-technical losses and so on;

3. Development plans allocated in strict accordance with project Loan Types specified in Policy No. 6 encompassing scope of project, costs and schedules;

4. Project costs and benefits established by engineering studies. Costs shall be detailed with a listing of materials and labor. Benefits will be specified and might include

new customers served, changes to customer consumption and reduction of losses;

5. Load forecast with and without the project;

6. Economic and financial analysis to establish project viability using conventional indicators (this can be carried out with the assistance of NEA);

7. Performance Improvement Plans.

POLICY STATEMENT:

A complete project feasibility study to include economic and financial analysis shall be a requirement in the processing of Rural Electrification loans. Project studies will be conducted in accordance with the Loan Types specified in Policy No. 6.

*Approved by the Board*
*Date: May 13, 1991*

LOAN POLICY NO. 24

APPRAISAL OF MORTGAGED PROPERTIES

OBJECTIVE:

To ensure safeguarding of NEA mortgaged properties.

POLICY STATEMENT:

Appraisal reports are a requirement for processing loan applications with a commodity component. The value of the materials and equipment being released to the EC must be determined and related to the amount of the loan being sought.

All collaterals, that is, materials and equipment and other items released to the ECs through loans, must be regularly inspected and appraised. The condition and appraisal value of all NEA mortgaged property must be continually monitored and reported to management.

*Approved by the Board*
*Date: May 13, 1991*

# LOAN POLICY NO. 25

# DOCUMENTATION REQUIREMENTS

## OBJECTIVE:

To prescribe the credit and legal documents that should be in the possession of NEA prior to loan releases.

## POLICY STATEMENT:

Documentation requirements serve a basic purpose - - the protection of NEA's interest. This purpose must be appreciated by all who are engaged in the loan process. Accordingly, compliance with requirements is to be strictly enforced.

## PRE-APPROVAL DOCUMENTATION REQUIREMENTS:

The following documents shall be required in the loan evaluation process; that is, loan applications will not be entertained unless the following documents required in the loan evaluation papers have been submitted to the NEA Account Officer concerned:

1. Board Resolution of EC authorizing the loan application;

2. Project Feasibility Study (for RE loans);

3. Audited Financial Statements (see Policy No.22);

4. Financial Projections for five  (5) years;

5. Canvass of Cost of Equipment (for logistical loans);

6. Damaged Report (for emergency loans).

POST-APPROVAL DOCUMENTATION REQUIREMENTS:

Upon approval but prior to the release of the loan proceeds, the following documents should be submitted:

1. All corporate resolutions to make the loan contract and all documents and instruments thereto;

2. Contract of Loan;

3. Promissory Note;

4. Deed of Mortgage;

5. Status of Mortgaged Properties.

The Accounts Management and Guarantee Department shall release the proceeds of the loan after the above-cited documents shall have been authenticated by the Corporate Legal Counsel.

*Approved by the Board*
*Date: May 13, 1991*

## LOAN POLICY NO. 27

## REGULAR AUDITS

OBJECTIVE:

To ensure compliance of prescribed policies and procedures.

POLICY STATEMENT:

Regular audits of (1) NEA's lending process and (2) EC financial and operational conditions are necessary to safeguard NEA's investments.

Regular internal and management systems audit of NEA's internal lending process should be conducted by NEA's Internal Coop. Audit Department (ECAD). Loan files should be subjected to regular audits to determine compliance with documentation requirements. Systems and procedures should be regularly reviewed to evaluate their continued applicability and relevance.

Regular financial opinion audit of ECs should be conducted by accredited external auditors. Where ECs are unable to produce the services of external auditors, such ECs may avail themselves of audit services that may be provided by NEA's audit department at reasonably prescribed fees that should, at the least, cover out-of-pocket costs.

*Approved by the Board*
*Date: May 13, 1991*

# LOAN POLICY NO. 29

# CENTRAL FILES

## OBJECTIVE:

To prescribe required documentation and manner of safekeeping.

## POLICY STATEMENT:

While the keeping of files by each department is recognized as desirable for keeping those items peculiarly involving the respective departments, the need for a central filing system has become necessary. Consistent with NEA's recent organizational restructuring, this central file will be maintained at the Loan Administration Department (LAD) now Accounts Management and Guarantee Department (AMGD). This Central File will contain all items involving the lending relationship including the following:

1. The loan application from the EC and a copy of the loan application sheet to the Board as subsequently certified/approved by the Corporate Secretary, or as amended;

2. Project Feasibility Study (required with every application for a Rural Electrification loan);

3. Audited Financial Statements;

4. Appraisal Reports (when required);

5. Board Resolution of the NEA Board approving the loan;

6. Board Resolution of the EC authorizing the loan application;

7. Amortization schedules;

8. Articles of Incorporation;

9. By-Laws;

10. Correspondence material between NEA and EC;

11. Audit Reports.

The following documents will be maintained in the vault under the custody of the Loan Administration Department (LAD) now Accounts Management and Guarantee Department (AMGD):

1. Contract of Loan;
2. Promissory Note;
3. Mortgage Documents;
4. Insurance Policies.

This Central File is the primary source of information on a client and all officers and departments are encouraged to keep it as up to date and complete as possible. Whenever there is an inclination to keep items for departmental purposes, it is advisable to make a copy for the Central File to ensure their currency and completeness.

*Approved by the Board*
*Date: May 13, 1991*

# LOAN POLICY NO. 30

# ACCREDITATION

## OBJECTIVE:

To define a policy of accreditation.

## POLICY BACKGROUND:

In the normal course of operations, and more particularly, in relation to implementation phases of projects which are recipients of NEA funding, ECs have to acquire the services of forwarders, contractors, consultants, architects, appraisers, engineers, and auditing firms. It is essential that NEA be assured of the quality of these professional services.

## POLICY STATEMENT:

A listing of accredited individuals, partnerships or corporations providing professional services to ECs shall hereby be issued for the proper guidance of all ECs.

*Approved by the Board*
*Date: May 13, 1991*

## LOAN POLICY NO. 31

## DEPOSITORY BANKS

### OBJECTIVE:

To define depository banks.

### POLICY STATEMENT:

Funds are to be deposited in government banks. Such banks may be the Philippine National Bank (PNB), Land Bank of the Philippines (LBP) or the Development Bank of the Philippines (DBP). In the absence of a government bank where an EC may be located, deposit of funds may be made with any established private commercial, development or rural bank with the prior consent of NEA.

*Approved by the Board*
*Date: May 13, 1991*

# LOAN POLICY NO. 32

# POLICY ON PRIVATE SECTOR PARTICIPATION IN RURAL ELECTRIFICATION

## POLICY BACKGROUND:

The attainment of local electrification is the primary goal of the government. However, its limited financial resources hamper the pursuit of this target.

Republic Act No. 9136, otherwise known as the “Electric Power Industry Reform Act of 2001” (EPIRA) declares as a national policy objective, among others to ensure and accelerate the total electrification of the country and to enhance the inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sectors. Further, the EPIRA likewise provides under:

Section 58 - that the National Electrification Administration (NEA) is mandated to develop and implement programs; (i) to prepare Electric Cooperatives (ECs) in operating and competing under the deregulated electricity market within five (5) years from the effectivity of the Act, specifically in an environment of open access and retail wheeling; (ii) to strengthen the technical capability and financial viability of ECs; and (iii) to review and update regulatory policies with a view to enhancing the viability of ECs as electric utilities; and

Section 59 - that the provision of electric service in remote and unviable villages that the franchised utility is unable to service for any reason shall be opened to Qualified Third Parties (QTP).

1. The loan exposure of government in the ECs is amply protected and the present market value of the EC's system should be considered in the valuation;

2. "Missionary electrification" does not get neglected;

3. In order to broaden the base of ownership, no single person, entity, or corporation shall take control over the ECs; and

4. Upon the entry of equity investors, as much as possible to withdraw concessionary terms for category A+ and A ECs.

NEA, in its desire to enhance the participation of private sector in the rural electrification and in its efforts to implement the related provisions of the EPIRA, issues this policy.

## OBJECTIVE:

Generally, this policy seeks to encourage private sector initiatives in rural electrification. Specifically, this aims to enhance the operational, technical and financial capability of ECs as well as encourage the inflow of private capital into the rural electrification.

## POLICY STATEMENT:

Private sector initiatives in rural electrification shall be encouraged to enhance the financial, institutional and technical capabilities of the ECs, enabling them to operate in a competitive electricity market. Limited government resources in the rural electrification must be used as leverage to attract private sector funding in the rural electrification. Initiatives from the private sector shall be allowed in accordance with the following principles:

1. The entity and nature of the EC is preserved, except if the EC member-consumers have opted to convert into either stock cooperative or stock corporation, as allowed by Section 57 of RA 9136.

2. Capital infusion whenever necessary must be in the form of “risk capital”. To encourage an investor, there must be an optimum balance of risk between the EC and the private investor.

3. Contract provisions on the renumeration and/or return on investment of private investor must be performance-based.

4. Private sector initiatives that would entail waiver and/or relinquishment of certain commercial interest to another person or entity must have the approval of the EC’s general assembly and approved by the NEA Board of Administrators. In case the EC is taken over by NEA, approval of the NEA Board of Administrators would suffice.

5. All contracts resulting in the participation of private sector in the EC must be awarded through competitive bidding. If NEA initiates a private sector initiative, competitive bidding shall follow government rules and regulations to ensure transparency and the most cost-effective prices for the ECs and the government.

6. The EC should not incur additional loan or debt obligations in favor of the private participant or proponent as a result of the private sector transactions.

The following private sector initiatives shall be considered:

1. Joint Ventures – are private sector initiatives where an EC and a strategic partner will combine resources for a specific purpose or undertaking that may or may not result to a creation of a separate and distinct entity or corporation.

2. Investment Management Contracts (IMC) – are those that involve substantial investments in, and management of, one or more ECs by a private investor, the specific terms of which are governed by a contract.

3. Management Contracts (MC) – are private sector initiatives similar to Investment Management Contracts except that, in this case only management expertise is infused in the EC.

4. Operations and Maintenance Contracts – investment in, and management of, only a portion of the entire distribution facility.

5. Special Equipment and Material Lease Agreements – a contractual arrangement between the EC as lessee and a supplier and/or owner of special equipment and materials as lessor, which calls for the lessee to pay the lessor on established least payment for the use of the special equipment

and materials. Option for the lessee to own the special equipment and material after certain period of time shall also be considered.

EFFECTIVITY:

This policy shall take effect upon approval of the NEA Board of Administrators and upon issuance of a guideline to implement this policy.

*Approved by the Board*
*Date: November 29, 2002*

# CREDIT AND RISK MANAGEMENT COMMITTEE CHARTER

In pursuit of good corporate governance, the Board of Administrators of the National Electrification Administration hereby constitutes a Credit and Risk Management Committee and adopts this Charter to govern its operations.

## PURPOSE

The Credit and Risk Management Committee is a standing committee appointed by the Board of Administrators:

1. To ensure that policies and procedures are in place to manage the risks to which NEA is exposed, including but not limited to financial, operational, liquidity and market risks.
2. To provide a critical assessment of NEA's business strategies and plans from a risk perspective.
3. To ensure that appropriate policies and procedures are in place for the detection, oversight and analysis of existing and future risks.

## MEMBERSHIP

The Risk Oversight Committee shall compose of at least three Board Members

| | |
|---|---|
| Chairman | - Board Member Wilfred L. Billena |
| Members | - Administrator Edita S. Bueno |
| | - Board Member Joseph D. Khonghun |
| Secretariat | - Office of the Corporate Secretary |

## RESPONSIBILITIES

The Credit and Risk Management Committee shall have the following responsibilities:

1. To review the risk philosophy, strategy and policies recommended by management. The Committee will ensure compliance with such policies.
2. To review and assess the adequacy of NEA's liquidity and funding.
3. To oversee and assess credit risk inherent in NEA's lending activities. Specifically, the Committee shall have the primary responsibility for all matters related to credit such as the following:
    a. Advise on any matters of significance relating to credit including recommendations to changes in Board lending policy or direction of lending
    b. Review the adequacy of the credit and risk controls implemented by management and the standard and quality of reporting to the Board
    c. Conduct review of loan proposals by management prior to submission to the Board
    d. Confirm loan approvals of the Administrator
    e. Monitor and evaluate NEA's exposure, loan arrears and portfolio composition
4. To review and assess NEA's operational risk.
5. To review key risk areas and key performance indicators and monitor these as part of a regular review.

## REPORTING RESPONSIBILITY

1. Periodically report Committee activities to the Board and other matters deemed appropriate to be brought to the Board's attention
2. Provide a communication link between management and the Board
3. Review any other report the management issues that relate to committee responsibilities

## AUTHORITY

In line with its policy-making and oversight functions, the committee has the authority to conduct or authorize any inquiry into any matter within the scope of its responsibility.

The Committee may ask any officer or employee to attend its meetings and provide pertinent information as necessary.

## REVIEW OF CREDIT COMMITTEE CHARTER

The Credit and Risk Management Committee charter shall be reviewed and assessed annually.

*Approved by the Board*
*Date: February 20, 2008*

## POWER ACCOUNT SETTLEMENT

OBJECTIVE:

To finance the ECs arrearages with NPC/TRANSCO in order to avail of prompt payment discount.

LOANABLE AMOUNT: P 50M

TERMS:

- 9% Interest rate/annum (8% p.a. – 2 years)
- 3 to 5 years repayment period
- Issuance of post dated checks

*Based on “A Primer on NEA’s Enhanced Lending Program for the ECs” (Sept. 2008)*

## ADD-ONS (HOUSEWIRING)

OBJECTIVE:

To finance housewiring materials and kilowatthour meters of newly connected consumers.

LOANABLE AMOUNT: P 6M

TERMS:

- 9% Interest rate per annum (8% p.a. – 2 years)
- 3 to 5 years repayment period
- Issuance of post dated checks

*Based on "A Primer on NEA's Enhanced Lending Program for the ECs" (Sept. 2008)*

# SECURITY DEPOSIT

## OBJECTIVE:

To finance the security deposit requirement of GENCOs, TRANSCO and WESM.

## LOANABLE AMOUNT: One (1) month GENCO/TRANSCO/ WESM Bill

## TERMS:

- 9% Interest rate per annum (8% p.a. – 2 years)
- 3 to 5 years repayment period
- Issuance of post-dated checks

*Based on "A Primer on NEA's Enhanced Lending Program for the ECs" (Sept. 2008)*

## SPECIAL RETIREMENT PACKAGE FOR EMPLOYEE

OBJECTIVE:

To finance the retirement of employees affected by the reorganization.

LOANABLE AMOUNT: P 15M

TERMS:

- 9% Interest rate per annum (8% p.a. – 2 years)
- 3 to 5 years repayment period
- Issuance of post-dated checks

*Based on "A Primer on NEA's Enhanced Lending Program for the ECs" (Sept. 2008)*

# REQUIREMENTS FOR LOAN AVAILMENT

## A. CAPITAL PROJECTS

I. Board resolution requesting for loan

II. Budget request – NEA Form

III. Project Feasibility Study or ERC Approval of the EC Capital Projects (if any)

A. Project Profile
1. Purpose
2. Description (including single line diagram of coverage area)
3. Justification
4. Total project cost and sources of funding
5. Timetable for the implementation/completion of the project.

B. Technical/Financial Analysis
1. Impact/Cost Benefit Analysis
   - 1.1 Reduction in system loss
   - 1.2 Power quality improvement
   - 1.3 Short circuit analysis for substation site
   - 1.4 System reliability
   - 1.5 Incremental sales in Kwhr
   - 1.6 Impact on Rates

2. NPV, IRR and Cost/Benefit Ratio Analysis

C. 5-year Projected Statement of Operation and Cashflow including Schedules

IV. Additional Requirements

A. For Rehab/Upgrading/Construction of New Lines
1. Staking sheet indicating portion to be constructed
2. Bills of materials/unit cost
3. Summary of construction assembly units
4. Photo documentations of project under evaluation

B. For purchase of materials/equipment/vehicles
1. Quantity needed (Kwhr meters, transformer, etc.)
2. Description/Specifications
3. Unit Price reference

C. For acquisition of 69 KV Lines
1. Lease/Cash Purchase Agreement between EC and TRANSCO approved by ERC including attachments (i.e. Joint Inspection Report)

## B. WORKING CAPITAL

I. Security Deposit
1. Board resolution requesting for loan
2. Latest power bill from TRANSCO/GENCO
3. 3-5 years Projected Income Statement and Cash Flow including schedules and assumptions

II. Short Term Credit Facility (STCF)/Stand-by Credit Facility (SCF)
1. Board resolution requesting for loan

2. Concrete steps undertaken by ECs to address cash flow problems
3. Latest copy of power bill from GENCO and Market Operator
4. 12-month Projected Income Statement and Cash Flow including schedules and assumptions

III. Power Accounts
1. Board resolution requesting for loan
2. Overdue accounts with TRANSCO/GENCO
3. 3-5 years Projected Income Statement and Cash Flow including schedules and assumptions

IV. Special Retirement for Employees
1. Board resolution requesting for loan
2. Approved EC re-organization/Retirement Plan
3. 3-5 years Projected Income Statement and Cash Flow including schedules and assumptions