



NATIONAL ELECTRIFICATION ADMINISTRATION

"The 1st Performance Governance System-Institutionalized National Government Agency"



MAY 07 2024

MEMORANDUM No. **2024 - 21**

TO : ALL ELECTRIC COOPERATIVES

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

This is to provide the Electric Cooperatives with the Enhanced Policy on the Classification of Electric Cooperatives (ECs) and Guidelines for the Declaration and Graduation of Ailing EC which was approved by the NEA Board of Administrators on April 25, 2024.

The said Policy supersedes Memorandum No. 2020-049 "Policy for the Classification of Electric Cooperatives (ECs) and Guidelines for the Declaration and Graduation of Ailing EC".

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

The Policy was filed with the UP Law Center on April 29, 2024.

ANTONIO MARIANO C. ALMEDA
Administrator

NATIONAL ELECTRIFICATION
ADMINISTRATION
Office of the Administrator



NEA-QA274468





29 April 2024

THE DIRECTOR

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

Sir:

Greetings of peace and good health!

Pursuant to Book VII, Chapter 2, Section 3 of the 1987 Administrative Code of the Philippines, we are respectfully submitting to the U.P. Law Center, for filing, publication and recording the attached certified true copies of the **ENHANCED POLICY ON THE CLASSIFICATION OF ELECTRIC COOPERATIVES (ECs) AND GUIDELINES FOR THE DECLARATION AND GRADUATION OF AILING EC** promulgated by the National Electrification Administration (NEA) in accordance with its authority under Section 5 of P.D. No. 269 as amended.

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

Very truly yours,


ATTY. GWEN P. ENCISO-KYAMKO
Acting Corporate Board Secretary V

U.P. LAW CENTER
OFFICE of the NATIONAL ADMINISTRATIVE REGISTER
Administrative Rules and Regulations
R APR 29 2024 **D**
REGISTERED
ONAR Registration No 24-0475
TIME: 2:50 BY: [Signature]





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

APR 29 2024
 REGISTERED
 ONAR Registration No 24-0475
 TIME: 2:00 BY: [Signature]

I. Rationale

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

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

Rule IV, Section 19 in the Implementing Rules and Regulations (IRR) of RA No. 10531 mandates NEA to ensure that the ECs are financially viable and to develop financial, operational and governance standards to serve as triggers for the intervention of the NEA in the EC operations at least one (1) year prior to being categorized as ailing EC.

II. Policy Statement

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

- a. Performance assessment of ECs on a quarterly basis
- b. Declaration and classification of ECs as ailing after observance of due process under this policy; and
- c. Exercise of step-in rights when circumstances warrant.

III. Objectives

- a. Formulate and prescribe operational, technical, financial and governance standards for the classification of ECs;
- b. Ensure early detection of adverse financial and technical conditions to serve as triggers for NEA interventions;
- c. Institute preventive, remedial and mitigating measures prior to being categorized as ailing ECs;

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- d. Provide prescribed procedures in declaration of ECs as ailing to ensure the observance of due process;
- e. Implement alternative options for ailing ECs; and
- f. Provide criteria for the graduation or delisting of EC from being an ailing.

IV. Performance Parameters and Standards for EC Classification

The NEA shall classify the ECs based on the performance standards enumerated below, which shall serve as the baseline or benchmark of a particular EC:

Parameters	Standards								
1. Working Capital Fund	At least one (1) month working capital for power and non-power costs								
2. Collection Efficiency	95% (Average Method)								
3. Accounts Payable <ol style="list-style-type: none"> a. Power <ul style="list-style-type: none"> • GENCOS • Transmission (NGCP) • Sub-Transmission b. Financial Institutions (FIs) (NEA, Banks, other FIs) 	Current/Restructured-Current/SPA								
4. Result of Financial Operation	Positive								
5. Net worth	Positive								
6. System Loss	ERC Resolution No. 20 s-2017								
	<table border="1"> <thead> <tr> <th>EC Cluster</th> <th>Distribution Feeder Loss Cap (%)</th> </tr> </thead> <tbody> <tr> <td>Cluster 1</td> <td>12%</td> </tr> <tr> <td>Cluster 2</td> <td>10.25%</td> </tr> <tr> <td>Cluster 3</td> <td>8.25%</td> </tr> </tbody> </table>	EC Cluster	Distribution Feeder Loss Cap (%)	Cluster 1	12%	Cluster 2	10.25%	Cluster 3	8.25%
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	Cluster 1	12%							
Cluster 2	10.25%								
Cluster 3	8.25%								
7. Reliability SAIDI/SAIFI	ERC Resolution 26 s-2009 (Electric Cooperative Distribution Utility Planning Manual) SAIFI - 20 interruptions/consumer per year SAIDI - 2,700 minutes/consumer per year								

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V. Classification of ECs

EC Classification	Level of Compliance	Status of Compliance	NEA Intervention
Green	7 parameters and standards	Full	If warranted
Yellow	<u>4-6</u> parameters and standards	Substantial	Less
Orange	<u>1-3</u> parameters and standards	Partial	Full
Red	Declared Ailing ECs after due process	Non-Compliance	Full (Exercise Step-in Rights)

VI. Implementation of Mitigating Measures prior to Declaration of an EC as Ailing

In the event that any of the circumstances provided in Section 20, Rule IV of the IRR of RA No. 10531 occur, NEA shall perform the following procedures prior to the declaration of the EC as an "Ailing EC;"

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

Approved NEA intervention shall be assessed one hundred eighty (180) days after its implementation.

- c. If the operational and financial conditions further deteriorate prior to the declaration of an EC as an ailing EC, it may be afforded a recovery period of not

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more than one (1) year commencing from the date when the EC received the result of assessment. During this recovery period, the EC shall undertake remedial measures to mitigate its difficulties such as, but not limited to, the formulation of a doable Operation Improvement Plan (OIP) wherein projects, programs and activities geared towards meeting the compliance requirements of Key Performance Standards shall be indicated. The plan will be submitted to NEA for approval.

- d. The EC shall submit quarterly Monitoring Report on the status of the projects and programs in its OIP. When it exhibited some observable improvement within 180 days of the recovery period, the EC shall continue with the implementation of the OIP for the remainder of the one-year period.

After the one (1) year period with improvements, the EC shall subsequently submit a Strategic Development Plan for an additional year, emphasizing a continuation of progress.

However, if there are still no concrete or significant improvements in the EC's operational and/or financial conditions within the given recovery period of 180 days, the OIP shall be set aside and become wholly inoperative. The EC shall then be required to develop another OIP with the NEA Team assigned to provide assistance to the cooperative.

- e. The NEA shall undertake a comprehensive assessment 1 year after the implementation of OIP. If it is established that the EC is non-compliant with the set performance and governance standards, NEA may declare an EC as underperforming and/or an ailing EC.

VII. Declaration of an Ailing EC

Under Rule IV, Section 20 of the IRR of RA 10531, the NEA may declare an EC as an "ailing EC" when such EC falls under any of the following circumstances:

- a. Has negative net worth for the last three (3) years which means that liabilities are greater than its assets;
- b. Has accumulated ninety (90) days arrearages in power supply purchases from generating companies and power suppliers/sources of electricity, and the transmission charges by the TransCo or its Concessionaire;
- c. Unable to provide electric service due to technical and/or financial inefficiencies including, but not limited to, high system loss, low collection efficiency, below standard current ratio, operating loss, huge liabilities and/or institutional problems such as governance, and non-adherence to NEA and EC policies;
- d. Unable to efficiently perform its electric distribution utility obligations or continue in business due to organizational, external and internal factors;

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Administrative Rules and Regulations

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- e. Has failed to meet other operational standards established by NEA; and
- f. Unable to set up or continually support its Wholesale Electricity Spot Market prudential requirements.

An EC shall be categorized as "ailing" only upon the prior declaration by the NEA Board of Administrators in a scheduled regular or special board meeting called for the purpose.

VIII. Exercise of Step-in Rights

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

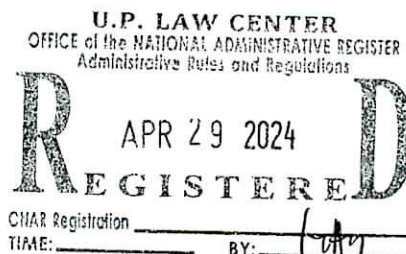
The ailing EC, for which NEA had already taken early interventions, may enter into partnership with the EC National/Regional Organizations and/or the private sector investor under the following framework after due process:

1. Cooperative to Cooperative Approach (C2C) or Task Force Kapatid (TFK)
 - Merger
 - Consolidation
 - Special Equipment and Materials Lease Agreement
2. Private Sector Participation (PSP)
 - Joint Venture (JV)
 - Investment Management Contract (IMC)
 - Management Contract (MC)
 - Operation and Management Contract (OMC)
 - Concession Agreement (CA)
 - Other variant applicable to ECs
3. Combination of C2C and PSP
4. C2C and Local Government Unit (LGU)
5. LGU and PSP

Contracts to be executed on any of the aforementioned frameworks must obtain the necessary approval as indicated in the EC By-Laws, Articles of Incorporation, NEA Policies and other pertinent rules and regulations.

If within a reasonable period, not exceeding one hundred eighty (180) days from its takeover, the NEA determines that such EC is unable to continue its operation in the ordinary course of business, It may:

1. Initiate structural reforms such as conversion of an ailing EC to either a Stock Cooperative registered with CDA or a Stock corporation registered with SEC; or



2. Institute appropriate legal actions such as Extra-judicial Foreclosure and Insolvency (Voluntary/Involuntary) and Bankruptcy proceedings, without prejudice to the right of creditors.

IX. Graduation/Delisting of an Ailing EC

The NEA, through the Board of Administrators, shall approve the graduation or delisting of an EC if it meets the following criteria:

1. EC's overall performance rating for the last three (3) years is at least C;
2. EC's compliance with the parameters and standards under the EC Classification is at least three, part of which is current/restructured current status in the payment to power suppliers, NEA and Banks/Other Financial Institutions.

X. Responsibility

1. The ECs shall ensure submission of reportorial requirements within the prescribed period.
2. The NEA shall enforce performance standards and submit quarterly compliance report to the Department of Energy (DOE) and Joint Congressional Energy Commission (JCEC) which shall include summary of compliance to established parameters and recommendations for rehabilitation and take-over

XI. Amendatory Clause

This supersedes Memorandum 2020-049 series of 2020 dated October 8, 2020 entitled Policy for the Classification of Electric Cooperatives (ECs) and Guidelines for the Declaration and Graduation of Ailing ECs.

XII. Effectivity

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

Approved:


ANTONIO MARIANO C. ALMEDA
Administrator

