

**[ EXECUTIVE ORDER NO. 119, August 28, 2002 ]**

**RESTRUCTURING PROGRAM FOR ELECTRIC COOPERATIVES**

WHEREAS , the Congress of the Philippines enacted Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" (EPIRA), for the purpose of restructuring the electric power industry, including the restructuring of electric cooperatives (ECs);

WHEREAS , Section 60 of EPIRA provides:

"Sec. 60. *Debts of Electric Cooperatives.* – Upon the effectivity of this Act, all outstanding financial obligations of electric cooperatives to NEA and other government agencies incurred for the purpose of financing the rural electrification program shall be assumed by the PSALM Corporation in accordance with the program approved by the President of the Philippines within one (1) year from the effectivity of this Act which shall be implemented and completed within three (3) years from the effectivity of this Act. The ERC shall ensure a reduction in the rates of electric cooperatives commensurate with the resulting savings due to the removal of the amortization payments of their loans. Within five (5) years from the condonation of the debt, any electric cooperative which shall transfer ownership or control of its assets, franchise or operations shall repay PSALM Corp. the total debts including accrued interest thereon." (Emphasis supplied);

WHEREAS , Rule 31 of the Implementing Rules and Regulations of EPIRA, as approved by the Joint Congressional Power Commission (JCPC) and promulgated by the Department of Energy (DOE), reiterates that said outstanding financial obligations of ECs shall be assumed by the Power Sector Assets and Liabilities Management Corporation (PSALM) in accordance with the program approved by the President of the Philippines;

WHEREAS , Rule 31 of the Implementing Rules and Regulations of EPIRA likewise defines the outstanding financial obligations which shall be assumed by PSALM as those incurred by ECs 'for the purpose of financing the Rural Electrification Program';

WHEREAS , the assumption by PSALM of such outstanding financial obligations of ECs shall result in the reduction in the rates of ECs commensurate with the resulting savings due to the removal of the amortization payment on said loans;

WHEREAS , Section 58 of EPIRA mandates the National Electrification Administration (NEA) to strengthen the technical capability and financial viability of rural ECs as electric utilities, and to prepare said ECs to operate and compete in the deregulated electricity market, specifically in an environment of open access and retail wheeling;

WHEREAS , the assumption by PSALM of the outstanding financial obligations of ECs incurred for the purpose of financing the Rural Electrification Program entails substantial government support that must come hand in hand with meaningful and

lasting reforms, both mandated and self-imposed, among the ECs, for the purpose of achieving reliable, secure and cheaper electricity for all consumers, particularly in the rural areas, in line with the declared policies in EPIRA;

WHEREAS , DOE, Department of Finance (DOF), NEA and PSALM, have recommended a program for the restructuring of ECs through the assumption by PSALM of the outstanding financial obligations of ECs incurred for the purpose of financing the Rural Electrification Program, with a view to reducing the spiraling cost of electricity (hereinafter referred to as the "Program");

NOW, THEREFORE, I, GLORIA MACAPAGAL-ARROYO , President of the Philippines, by virtue of the powers vested in me by law and upon the recommendation of DOE, DOF, NEA and PSALM, do hereby order:

SECTION 1. DECLARATION OF POLICY . The Program adheres to the following declared policies in EPIRA:

- a. To ensure and accelerate the total electrification of the country;
- b. To ensure the quality, reliability, security and affordability of the supply of electric power;
- c. To ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and ensure the competitiveness of Philippine products in the global market;
- d. To encourage the efficient use of energy and other modalities of demand side management; and
- e. To protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power.

SECTION 2. COVERAGE . As specified under Section 60 of EPIRA, the Program for PSALM to assume the outstanding financial obligations incurred by ECs covers only those obligations incurred for the purpose of financing the Rural Electrification Program. The Implementing Rules and Regulations of EPIRA, as approved by JCPC and promulgated by DOE, defines "Financing for Rural Electrification" as referring to loans and grants extended to ECs, for the construction or acquisition, operation and maintenance of distribution, generation, and subtransmission facilities for the purpose of supplying electric service, and those loans for the restoration, upgrading and expansion of such facilities, in areas which are considered rural at the time of the grant of such loans (hereinafter referred to as "Rural Electrification Loans").

Thus, the Program shall comprise the following:

- a. Financial, institutional, technical and managerial restructuring of ECs, pursuant to Section 58 of EPIRA;
- b. Assumption by PSALM of Rural Electrification Loans, pursuant to Section 60 of EPIRA;
- c. Amortization of payments to NEA and/or other government creditor agencies for Rural Electrification Loans assumed by PSALM, pursuant to Section 60 of EPIRA; and
- d. Reorganization of NEA to enable it to perform its additional mandates under Section 58 of EPIRA, and in accordance with Section 5(a)(5) of Presidential Decree No. 269, as amended by Presidential Decree No. 1645.

SECTION 3. NEA REORGANIZATION PLAN . In order to better achieve the objectives of EPIRA and to suit the organizational staffing pattern of NEA to its additional