

[DOE, September 08, 1994]

**POLICY AND IMPLEMENTING GUIDELINES GOVERNING DIRECT
POWER CONNECTION OF INDUSTRIES WITH THE NATIONAL
POWER CORPORATION**

Pursuant to the Memorandum of Agreement entered into on September 14, 1993 by and between the Department of Energy and Department of Trade and Industry, the Committee on Direct Power Connection hereby adopts and promulgates the following policy and implementing guidelines governing direct power connection applications of industries with the National Power Corporation.

I

General Statement of Policy

In line with Republic Act No. 6395, as amended, authorizing the National Power Corporation (NPC) to sell electric power in bulk to industrial enterprises and as embodied in the Memorandum of Agreement entered into on September 14, 1993 by and between the Department of Energy and the Department of Trade and Industry, the Committee on Direct Power Connection (hereinafter referred to as the Committee) shall evaluate and recommend actions on applications for direct connection of industrial enterprises with NPC. Toward this end, the Committee shall implement the policy on direct connection as a mechanism to promote investments and industrial development and generate exports and employment with due regard to the determination of the operational capability of the franchise holder or electric cooperative to service industrial power requirements.

II

Implementing Guidelines

Pursuant to the policy on direct connection, the Committee hereby adopts and promulgates the following guidelines:

A. At any given service area, priority shall be given to the authorized cooperative or franchise holder (utility) in the right to supply the power requirements of existing or prospective industrial enterprises that are located or plan to locate within the franchise area of the cooperative or utility; Provided, That the cooperative or utility is technically and financially capable to serve the load applied for as may be certified by the Committee.

B. The Committee shall recognize the right of NPC to continue selling electricity to industrial enterprises pursuant to its existing contracts.

C. The Committee shall entertain and process applications for new direct connections only for industrial enterprises/projects located outside the National Capital Region. This is in line with the policy thrust of rural agri-industrialization including the dispersal of industries to the regions outside the NCR, and the implementation of a public policy which supports the improvement and development

of rural infrastructure, industrial dispersal and the integration of the economy — as contained in the Medium-Term Philippine Development Plan for 1993-1998.

D. Direct connection shall be allowed only to industrial enterprises/projects registered by the BOI after September 14, 1993; Provided, That the direct connection shall be for a maximum period of five (5) years.

E. Industrial enterprises/projects already in operation and being served by cooperatives or utilities shall not be allowed to avail of direct connection, except in cases where the concerned enterprise shown sufficient proof of failure on the part of the cooperative or utility to deliver reliable service as may be determined by the Committee.

F. In service areas where the facilities of cooperatives or utilities are not sufficient to meet the supply requirements of industrial enterprises immediately, the Committee may recommend that NPC service the power requirements of these customers directly.

G. In cases where the franchise operator will later on be deemed capable to assume the distribution function for enterprises whose contracts with NPC shall have expired which will thereby require the transfer to the utility of the physical facilities previously put up by NPC, the reimbursement of costs on such facilities shall be made after valuation based on generally accepted accounting principles.

H. In all cases, residential customers, including those in real estate subdivisions must be serviced by or through a cooperative or utility.

I. The Committee shall recognize the right of NPC to sell electric powers in bulk to government institutions pursuant to the provision of Republic Act No. 6395, as amended.

III Criteria for Evaluation

A. In processing an application for direct power connection, the Committee shall be guided, but not limited, by the following general considerations:

1. The proposed direct connection will promote public interest in a proper and suitable manner considering the need and convenience of the power end-user.
2. The affected franchise holder/cooperative meets the prescribed financial and technical standards of performance, as set forth in Annex 'A'.

B. The Committee shall further recognize the following considerations:

1. Delivery voltage for directly connected industrial loads shall be at a minimum of 69,000 volts, and that the industrial load shall not be less than 2,000 kilowatts.
2. The direct connection will not result in duplication of service facilities on the ground that investment resources are limited.
3. The applicant industrial firm shall advance/finance facilities associated with service delivery if: (i) said facilities are not included in NPC's

operational budget for the year; and (ii) said applicant fails to meet NPC's financial viability criteria even if the franchise holder waives its right to service its power requirements.

4. NPC shall reimburse cost of facilities within five (5) years to be credited against future monthly power bills of the customers (in case the industrial firm will finance the distribution system dedicated to its use).

III Effectivity

This policy and implementing guidelines shall take effect immediately.

Adopted: 8 Sept. 1994

(SGD.) NEPTALI S. FRANCO
Chairman

ANNEX A GUIDELINES TO EVALUATE THE CAPABILITY OF COOPERATIVES/FRANCHISE HOLDER TO SERVE INDUSTRIES

The following financial and technical standards of performance shall guide the Committee on Direct Power Connection in the determination of the electric cooperative or franchise holder's capability to serve the power requirements of industries:

I Financial Standards

On the basis of the utility/cooperative's audited financial statements for the last three (3) years immediately preceding the date of application for the direct connection in its service area, the utility/cooperative shall be certified to be in sound financial condition if it meets the following standards:

Indices	Standard
a. Outstanding debt to NPC (ODNPC)	No outstanding debt
b. Debt service Capability Ratio (DCSR) for private utilities	At least 1.25
Amortization Payment (AP) for electric cooperatives	At least 1 month
c. Operating Expense Ratio (OER)	At least 95%
d. Average Collection	Not more

Period (ACP)	than calendar days	45
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Weights are given to; the different financial standards since different financial indicators are not of equal importance in the determination of financial capabilities of electric utilities in taking over industries directly connected to NPC, viz;

Indices	Standards	Weights
ODNPC	No ODNPC	50%
DSCR/AP	1.25 or more/ 1 month or less	25%
OER	95% or less	10%
ACP	45 days or less	15%

In order to pass the financial standards, utilities should obtain at least a 75% passing mark. Those that do not pass one of the above standards should be within 10% of the standards.

2 Technical Capability

On the basis of the utility/cooperative's record of operations for the last three (3) years immediately preceding the date of application for the direct connection in its service area, the utility/cooperative shall be certified to have a track record of reliable service as measured by the following:

Index	Standard
System Losses	not more than 20% for cooperatives
	not more than 14% for utilities

Note: In the report on direct connection issued by the Working Group tasked to study the matter through a Presidential Directive, it was recommended to review these standards to include additional technical indicators/standards.

3 Definition of Terms

a. Outstanding Debt to NPC (ODNPC) shall refer to total outstanding or overdue accounts to NPC excluding restructured debts and receivables from government accounts.

b. Debt Service Capability Ratio (DSCR):

Net income (before
interest) plus Non-