[NEA, November 06, 2013]

GUIDELINES FOR THE CLASSIFICATION OF ECs AND PROVISION FOR NEA INTERVENTION

Adopted: 06 November 2013
Date Filed: 03 January 2014

I. RATIONALE

Republic Act (RA) No. 10531 mandates the National Electrification Administration (NEA) to strengthen the electric cooperatives, help them become economically viable and prepare them for the implementation of retail competition and open access. Towards this end, NEA lays down parameters geared towards the preclusion of an EC from being declared as "Ailing" wherein NEA shall exercise step-in-rights.

Specifically, Rule IV, Section 19 (b) of the IRR of RA 10531 provides that the NEA shall develop financial and operational parameters to serve as triggers for intervention of the NEA in the EC operations at least one (1) year prior to being categorized as ailing EC: Provided, that the obligations as set forth in paragraphs (a) and (b) of this section, shall be developed within sixty (60) days from the issuance of the IRR and shall be approved by the DOE: Provided further, That subsequent amendments thereto shall likewise be approved by the DOE.

Likewise, Rule IV, Section 20 of the IRR of RA 10531 provides that the NEA shall, within sixty (60) days from the effectivity of the IRR, submit a set of standards to determine the classification of the ECs guided by the parameters of the IRR: Provided, that the NEA shall classify the ECs based on the standards mentioned in the preceding sentence: Provided further, that the classification shall serve as the baseline and/or benchmark of the particular EC.

II. BACKGROUND

NEA assessment shows that some ECs are confronted with a range of challenges such as mounting liabilities arising from poor governance, low collection efficiency, high system loss, and/or unresponsive rate methodology. Early detection of these problems is necessary to ensure continuous delivery of efficient and reliable service to member-consumers without threat of power supply disconnection. Pursuant to RA 10531, NEA hereby formulates parameters to ensure the ECs' operational efficiency and financial viability through the provision of appropriate intervention.

III. OBJECTIVES

1. To formulate and prescribe standards for the classification of ECs according to financial, technical and institutional performance.
2. To ensure early detection of adverse financial condition and to serve as triggers for NEA intervention in the EC operation.

3. To institute preventive, remedial and mitigating measures prior to being categorized as ailing EC.
4. To implement alternative options for the ailing ECs.

IV. POLICY STATEMENT

It shall be the policy of NEA to prescribe a mechanism for the assessment of the performance of ECs, to provide financial, institutional and technical assistance if necessary, to institute preventive and remedial measures, and to exercise step-in rights when circumstances warrant.

PARAMETERS

The parameters and standards to be used in the assessment of the EC financial condition and operational performance are as follows:

Parameters	Standards
1. Cash General Fund	At least one (1) month power cost and non-power cost
2. Collection Efficiency	95%
3. Accounts Payable-Power	Current/Restructured-Current
4. Profitability	Positive
5. Networth	Positive
6. System Loss	13%

VI. CLASSIFICATION OF ECs

1. **Green** - ECs which meet and comply with all the standards set forth in the preceding table, thus needing less NEA intervention.
2. **Yellow** – ECs which do not comply with any of the above parameters and shall fall under the “watchlist” group. An EC which falls under the parameters enumerated under any of the circumstances as provided in Section 20 of the IRR of RA 10531 and which has not been declared as “Ailing EC” by the NEA shall fall under the Yellow classification, namely:

   a. Has negative networth for the last three (3) years. For this purpose, “*Negative Net Worth*” shall mean as the financial condition of an EC in which its 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 systems 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;