

**AIRGRAM**

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DEPARTMENT OF STATE

*misfiled*

*Proj No 4920248*

PC-15  
NRECA-2  
NRCR-2  
OIB-1  
OIB-3

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TO - AID/WASHINGTON TOAID A-344 X

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FROM - MANILA

SUBJECT - NONCAPITAL PROJECT PAPER (PROP)

12-p.

REFERENCE -

Country Philippines Project No. 492-11-220-24

Submission Date June 5, 1970 Original X Revision No. \_\_\_\_\_

Project Title Rural Electrification

U.S. Obligation Span: FY 1971 through FY 1973

Physical Implementation Span: FY 1971 through FY 1973

Gross Life-of-Project Financial Requirements: (\$000)

U.S. Dollars ----- \$ 500

U.S.-Owned Local Currency ----- -

Cooperating Country Cash Contribution ----- 5,454  
(\$1.00 = P5.50)

Other Donor(s) ----- 20,000

TOTALS 25,954

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PAGE 1 OF 12 PAGES

DRAFTED BY: Staff OFFICE: Program/NRECA/Engineering PHONE NO.: DATE: 6/4/70 APPROVED BY: Thomas C. Niblock Director

AID AND OTHER CLEARANCES: Program Eng, Ind. Devel., Controller, NRECA

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Present efforts by USAID in the field of rural electrification in the Philippines originated with the USAID-sponsored Electric Power Industry Survey in 1964. The Survey was followed by USAID technical cooperation projects (Rural Electrification Cooperatives) over the period FY 1967 - FY 1970. Three associated development loans were made in FY 1969.

These efforts have met with considerable success and an enthusiastic response from Philippine Government authorities. A separate rural electrification project should now be established so that a coordinated program may go ahead, with full efficiency and effect, based on the encouraging record to date.

The following narrative describes USAID's electrification activities and presents plans for the future. Future activities should be implemented under the Rural Electrification Project covered by this PROOP.

#### I. Summary Description:

Electric power is presently unavailable to over 80% of the Philippine population. Recognizing that adequate, dependable and reasonably-priced power can significantly assist social and economic development, the Governments of the Philippines (GOP) and the United States have mounted a joint effort towards developing an electric power infrastructure in the Philippines, with emphasis on development of successful rural electrification.

Encouraged by the passage of R.A. 6038, comprehensive landmark legislation mandating "--- Total Electrification of the Philippines On An Area Coverage Service Basis ----", USAID proposes to support and assist this national objective by providing technical assistance and participant training totalling \$500 thousand for the period FY 1971 through FY 1973. The technical assistance and training inputs will be aimed primarily at the development of both public and private institutions needed for the regulation, financing, technical assistance, and general implementation of a realistic and attainable electrification program for the country. Complementing this effort are 8 to 12 rural electric cooperative feasibility studies to be accomplished by December, 1971 under an AID Feasibility Study Loan (492-H-023).

Backed by an expressed GOP enthusiasm, the program is moving forward methodically and diligently, in compliance with the new law. However, based on favorable publicity generated by recent past activities in this field and an unprecedented public clamor for speedier progress, the GOP has responded by indicating its desire for a more vigorous pursuit of accelerated general electrification. Demonstrable manifestations of increased GOP resource allocations and support for the program may make it appropriate for USAID to revise its present modest assistance ~~program~~ to a higher, more responsive level at some future time.

## **II. Setting of Environment**

Adequate electric service is generally available only in the major urban areas of the country. There are many small private and municipal systems serving other areas, but such service is usually inadequate, being limited in extent, intermittent and unreliable, and expensive. Thus the great majority of the countryside is completely without electric service, a small part has service which is largely unresponsive to its needs, and only certain major urban areas are well served. Thirty million Filipinos, from a total population of about 37 million, lack this vital service which could improve their way of life and make their labors more productive and rewarding.

The lack of adequate widespread electric service can be attributed to many factors. In the past there has not been a national emphasis on concepts and plans which would bring about such a development. Financing has not been available in the amount, rate or term conducive to large-scale utility expansion. Utilities require long-term capital at reasonable rates if electricity is to be provided to the consumer at rate schedules which encourage its abundant use. Also, small isolated systems do not have the opportunity to benefit from competent management and technical support, or to profit from the efficiencies and economies available in large-scale operations. Franchise allocations and laws, industry regulation and standards, and a philosophy of service not particularly responsive to the public interest all tend to inhibit service expansion and improvement.

Since 1962 a small program of electrification has been and is being conducted by the Electrification Administration. This program is generally ineffective in concept and implementation. However, in recent years there has been a growing realization by GOP leadership that widespread, satisfactory electric service is one of the more vital elements in social and economic progress. This realization was emphasized in the summer

of 1969 by enactment of Republic Act 6038 - The "National Electrification Administration Act". The total electrification of the Philippines on an area coverage basis is declared, in the Act, to be a national policy objective. The Act provides much of the legal framework for the attainment of this objective in an orderly and vigorous manner.

In response to requests from the GOP, USAID has provided financial and technical assistance aimed at developing a realistic electrification plan for the Philippines. Two pilot project feasibility studies for rural electric cooperatives were completed by USAID in 1968. USAID then loan-financed (FY 1969) the foreign exchange requirements of both projects. Local currency costs were loan-financed by the GOP through the Electrification Administration. Both systems - Victoria Rural Electric Service Cooperative (VRESCO) in northern Negros Island and Misamis Oriental Rural Electric Service Cooperative (MORESCO) in northern Mindanao, are expected to be in operation in 1971. These pilot projects, though still incomplete, helped generate considerable enthusiasm and support for enactment of Republic Act 6038, and for continuation and expansion of such project development.

Contract personnel from the National Rural Electric Cooperatives Association (NRECA), Washington, D.C., assisted USAID in the preparation of VRESCO and MORESCO studies. The GOP then requested USAID approval for funding, from the AID Feasibility Study Loan, of an additional 3-man NRECA team. This team arrived in the Philippines in December 1969 and will work directly with the National Electrification Administration (NEA) over a two-year period. Its function will be to provide advice, guidance, assistance and training in development of new feasibility studies for the establishment of viable electric service cooperatives. Training of local counterparts will be emphasized.

By law, the National Power Corporation (NPC) of the GOP is charged with responsibility for hydro-electric power development, and generation and transmission of electric power throughout the Philippines. NPC's present efforts are primarily concentrated in Central Luzon with about 430 megawatts of installed capacity, although they also have limited facilities on the island of Mindanao with roughly 150 megawatts of installed capacity.

To expand their activities in Mindanao, NPC, using the AID Feasibility Study Loan, is conducting a study for an overall long-range and phased power development plan for the island. This will include additional development of hydro-power facilities on the Agus River, possible thermal plants at major load centers away from the existing Maria Cristina facilities, and a high-voltage transmission grid network to serve the entire island. It is hoped that the NPC will implement this

plan using incentive rates to encourage load promotion and growth.

### **III. Strategy**

Total electrification of the Philippines will depend on service from Government, private, municipal and cooperative systems. Coordinated long-term planning is essential in order to achieve the most effective development of the country's power resources. The National Electrification Administration Act creates a coordinating group - the national Power Development Council. USAID foresees that this Council, when convened, will provide opportunities for cooperation between all segments of the industry.

Feasibility studies to be prepared by the new NRECA team, working with NEA staff, will be implemented as soon as possible. It is believed that the GOP, in addition to drawing from their own budgetary resources, will look to the Asian Development Bank and perhaps the IBRD as possible sources of capital financing for projects. The development of additional electric systems will reinforce the planned pattern of development by which all areas, now without electricity, may receive service. Area coverage, an important ideal in R.A. 6038, will be emphasized. These new projects will include generation and transmission as well as distribution facilities. Successful results are expected to engender additional support from government and private interests. Economic and social progress within newly electrified areas will be well publicized, so as to increase interest in the program from unserved areas and foster demands for a more expeditious installation of electric service capability by the utility industry.

### **IV. Planned Targets, Results and Outputs**

The main objective of the project is to provide technical assistance, advice, and consulting services to:

- A. The VRESCO and MORESCO pilot projects, to assist in their early completion as operating entities.
- B. The Presidential Economic Staff (PES), to encourage the enactment of needed additional legislation, rules and regulations to implement the provisions of R.A. 6038.
- C. The NPC, to encourage implementation of the Mindanao Development Plan.
- D. The NEA, to assist in the implementation of from four to eight additional electrification projects. (These

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will be based on the 8 to 12 feasibility studies being accomplished under another concurrent project by NRECA/GOP Contract.)

- E. The private sector, through such organizations as the Private Electric Plant Operators Association of the Philippines (PEPOA), to encourage and assist in the improvement of management and operations, and in the expansion of existing facilities, to provide increased and more reliable electric service at reasonable rates.

While carrying out the above activities, and in coordination and complementary to the separate NRECA feasibility study effort with the NEA, it is intended to provide local, regional and U.S. training of Filipino officials and personnel, to establish a capability within the Philippines to carry out all functions of planning, studies, organization, management, and other activities directly related to electrification.

#### V. Course of Action

USAID will provide direct-hire staff members, NRECA electrification specialists, and special short-term consultants to:

- A. Work with and assist the owners and staffs to expeditiously complete the VRESCO and MORESCO projects as viable operating entities to serve approximately 200,000 people, and make their operating data available for guidance and use in planning and operating of subsequent similar projects.
- B. Encourage the GOP to appoint, as soon as possible, qualified, respected and dedicated public officials and representatives of the power industry to the NEA Board of Administrators and to the Power Development Council to provide the guidance, leadership and expertise necessary to implement the goals of the National Electrification Act.
- C. Provide continuing technical advisory assistance to the NEA Board of Administrator and staff to establish policies, procedures, standards and criteria in consonance with R.A. 6038 so that the NEA will effectively function as the primary loan agency, regulatory authority, source of technical assistance and promotional organization for rural electrification of the Philippines.

- D. Work directly with the Power Development Council to bring about effective coordination and cooperation among all entities concerned with electric power so as to assure orderly but rapid electrification of the country with a minimum of waste and duplication of effort.
- E. Assist the NEA and its prospective borrowers in seeking and securing foreign exchange financing from international sources and local currency financing from institutions within the Philippines.
- F. Develop the technical expertise of NEA, Cooperative, and/or other personnel in all phases of electrification activities and efforts; and also arrange for (1) in-country on-the-job and academic training, institutes, seminars, and workshops, and (2) selected but limited third-country and U.S. participant training.
- G. Work directly with entities of the GOP, principally the Presidential Economic Staff (PES), to research, draft, and propose appropriate additional legislation along with the necessary promulgation of executive orders and rules and regulations to fully and expeditiously implement the true intent of R.A. 6038.

## VI. Financial Inputs

### U.S.

#### A. TECHNICIANS

- 1) Three full-time PRECA technicians, two of whom are presently project-funded thru FY 1970 -- all three will subsequently be project-funded under this project through June, 1973, at a total cost of approximately \$315,000, to complete the VRESCO and MORESCO projects and provide general advisory assistance on power development and electrification.
- 2) Short-term consultants (such as specialists in electric cooperative accounting, power use, in-country training, workshops and seminars, and legal affairs) until January, 1973 at a total estimated cost of approximately \$120,000.

B. COMMODITIES: (Almost all of the initial commodities needed, such as vehicles to initiate the U.S.'s electrification assistance efforts, have already arrived or are on order):

- 1) Grant funding of "bench-type" testing instruments and other minor laboratory equipment at an estimated total cost of \$5,000.-

C. PARTICIPANTS:

Continue to provide training to four carefully screened and selected participants per year for direct on-the-job training as actual employees and staff members of rural electric cooperatives in the United States for three to six months at an average estimated cost of approximately \$3,000 each. It is also contemplated that from time to time trainees from both NEA and Philippine Cooperatives, and other related organizations may be sent out of country for other specialized training. For this latter purpose an amount of \$3,000 annually should be sufficient to finance two participants per year. Total estimated cost for participant training during the life of this project is, therefore, \$60,000. Other training, to be conducted in-country by the specialist discussed above in A.2. will be at no additional cost to this project.

GOP:

A. COUNTERPART TECHNICIANS:

Approximately 15 counterpart technicians will be provided to this project, primarily from the NEA, with approximately 12 to 13 working on the new electrification feasibility studies and the other two or three being involved in the MORNSCO and VRESKO projects. Additional counterparts will be assigned as new electrification projects are implemented.

B. FUNDING:

1. P300 million appropriated by Republic Act #6038 (National Electrification Act) in 1969 for use over the next ten years thru low-cost loans to electrification projects. (Annual fund released of approximately P800,000 are made out of GOP General Revenue Funds for administrative costs and

overhead expenses of the National Electrification Administration.)

2. Rebanding of previous National Electrification Administration loan fund resources. Magnitude of presently outstanding loans is about P25 million from previous rollovers, with annual repayments totalling about P1 million. Therefore, it is possible that another P1 million annually could be released from this revolving fund to re-electrification projects.
3. E.A. 6038 directs that loan funds for electrification projects be made available from other GOP financial sources, such as the Development Bank of the Philippines, Japanese Reparations, Government Service Insurance System and Social Security System, although the magnitude of funds is not specified.
4. P100 million has been appropriated out of the Public Works Fund for the National Power Corporation for construction of electric generation/transmission facilities nationwide, with P25 million of this earmarked for Mindanao.

OTHER POSSIBLE SOURCES OF FUNDING:

Foreign exchange costs of feasible projects will have to be sought from external sources such as the IMF (World Bank), the Asian Development Bank, the Export-Import Bank of the U.S., and possibly banks of other developed nations seeking export outlets for their electrical products. While suppliers' credits may be a possible source of financing, the generally high cost of this type of funding would tend to rule it out as a probability.

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**RURAL ELECTRIFICATION  
BREAKDOWN BY FISCAL YEAR BALANCE SHEET  
(Obligations in \$000)**

**TECHNICAL COOPERATION FUNDS**

<u>Project No.</u>	<u>Project Title</u>	<u>Fiscal Year</u>	<u>Total</u>	<u>Contract Services</u>	<u>Participant</u>	<u>Commodities</u>
492-11-220-169	Electric Power Industry Survey	1964	249	249	-	-
492-11-220-169	Electric Power Industry Survey	1965	5	-	5	-
492-11-220-189	Rural Electrification Coops	1967	158	158	-	-
492-11-220-189	Rural Electrification Coops	1968	2	-	2	-
492-11-995-236	Provincial Development	1969	125	104	-	21
492-11-995-237	General Participant Training	1969	8	-	8	-
492-11-995-236	Provincial Development	1970	<u>65</u>	<u>42</u>	<u>14</u>	<u>9</u>
	<b>Total</b>		<b><u>612</u></b>	<b><u>553</u></b>	<b><u>29</u></b>	<b><u>30</u></b>

**DEVELOPMENT LOAN FUNDS**

492-21-290-095	Feasibility Studies Loan	1969	255	255	-	-
492-52-220-189	Rural Electrification Coops	1969	2,000	Loan #492-N-025 (UNESCO)		
492-52-220-189	Rural Electrification Coops	1969	<u>1,100</u>	Loan #492-N-026 (UNESCO)		
	<b>Total</b>		<b><u>3,355</u></b>			

Table 1

**NONCAPITAL PROJECT FUNDING**  
(OBLIGATIONS IN \$000)

PROP DATE: 6/5/79  
Original:             
Rev. No.:           

Country: Philippines

Project Title: Rural Electrification

Project No. : 492-11-220-248

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Fiscal	AP	L/O	Total	Contl/	PERSONNEL Serv.		Participants		Commodities		Other Cost	
					AID:	PASA :CONT	U.S. :	CONT	Direct: CONT	IE Ag.:	Dir. : CONT	IE Ag.:
Prior through Actual FY 1970	-	-	-	-	-	-	-	-	-	-	-	-
Op. FY 1971	TC	G	200	(173)	-	-	175 <sup>2/</sup>	20	-	5	-	-
Bdg. FY 1972	TC	G	165	(145)	-	-	145 <sup>2/</sup>	20	-	-	-	-
B + 1 FY 1973	TC	G	135	(115)	-	-	115 <sup>2/</sup>	20	-	-	-	-
B + 2 FY 1974	-	-	-	-	-	-	-	-	-	-	-	-
B + 3 FY 1975	-	-	-	-	-	-	-	-	-	-	-	-
All Bdg.	-	-	-	-	-	-	-	-	-	-	-	-
Total Life			500	(435)	-	-	435	60	-	5	-	-

<sup>1/</sup> Memorandum (rounded) column  
<sup>2/</sup> \$100 for three full-time MERCA technicians, balance for short-term consultants (see Sect. VI A).

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Exchg. Rate \$1 = P5.50

Project No. 492-11-220-008

Fiscal Years	AID-controlled		Other Cash Contribution Cooperating Country	Other Donor Funds (\$ Equiv.)	Food for Freedom Commodity		
	Local Currency U.S. - : owned : owned :	Country- owned			Metric : Tons : (000) :	CCC Value & Freight (\$000) :	World Market Price (000)
Prior through Act. FY 1970	-	-	-	-			
Apr. FY 1971	*	-	1,818	5,000			
Aug. FY 1971	*	-	1,818	5,000			
B + 1 FY 1972	*	-	1,818	10,000			
B + 2 FY 1972	-	-	-	-			
B + 3 FY 1973	-	-	-	-			
All Subs.	-	-	-	-			
Total Life	-	-	\$5,434 <sup>1/</sup>	\$20,000 <sup>2/</sup>			

\* Possible PL480 inputs of P25-30 million over FY 1971-73 period.  
<sup>1/</sup> P30 million-estimate of total GOP funding input, considering all sources discussed in PRRP narrative (pages 4-5).  
<sup>2/</sup> Estimate of total "Other Donor" funding input, considering all sources discussed in PRRP narrative (page 9). "OTHER POSSIBLE SOURCES OF FUNDS".