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ELECTRIC COOPERATIVE OWNERSHIP IN THE PHILIPPINES

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TABLE OF CONTENTS

INTRODUCTION.....Pg. 3

EXECUTIVE SUMMARY.....Pg. 5

BACKGROUND AND IMPORTANT TRENDS.....Pg. 8

FINDINGS AND RECOMMENDATIONS.....Pg. 13

ANSWERS TO SPECIFIC QUESTIONS RAISED PRIOR TO REPORT.....Pg. 22

APPENDICES:

A. TRENDS IN NET MARGINS.....Pg. 28

B. TOTAL NET MARGINS OF ALL ELECTRIC COOPERATIVES...Pg. 30

C. NEA MEMO RE: CATEGORIZATION OF ELECTRIC COOPERATIVES.....Pg. 32

D. CATEGORIZATION OF EACH COOPERATIVE.....Pg. 39

E. NEA CATEGORIZATION SUMMARIZED.....Pg. 43

F. 1992 EC MARGINS: RECALCULATED BASED ON LINE LOSS ADJUSTMENTS.....Pg. 45

G. OPINION OF MINISTRY OF JUSTICE THAT ECs ARE PRIVATE ENTITIES.....Pg. 50

PERSONS CONTACTED IN PREPARATION OF REPORT.....Pg. 54

LIST OF BACKGROUND DOCUMENTS.....Pg. 55

AUTHOR OF THE REPORT.....Pg. 56

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RURAL ELECTRIC COOPERATIVE OWNERSHIP

INTRODUCTION

In recent years there has been some controversy and difference of opinion over the legal status of the rural electric cooperatives (ECs or cooperatives) in the Philippines. Additionally, questions have been raised regarding the advantages and/or disadvantages of possible changes in ownership of the ECs.

It is the goal of this report to reduce the uncertainty on these issues.

This report is founded on written and electronic information gathered in the Philippines and on an extensive interview process with people in the Philippines who have considerable insight into rural electrification in the country. Additionally, a thorough knowledge of rural electrification in the United States was brought to bear where applicable to rural electrification matters in the Philippines. Also, to the extent that reliable data was available, electric cooperatives in other parts of the world were also analyzed.

Many analyses have previously been performed on Philippine rural electrification issues. In reviewing these earlier works it was determined that much valuable labor has already been done in the field. This report can build on the foundation of previous work, it can update previous work and it can bring new perspectives to the field. It is very important that previous work still has considerable use at this time. That work has been done by multi-national, U.S., and Filipino lending institutions and consultants working for those institutions. It should be comforting to those interested in Filipino rural electrification to know that funds spent on previous studies are still providing benefit to the nation. These studies will be referenced throughout this report.

Considerable data for use in this report was available from the National Electrification Administration (NEA), the Energy Regulatory Board (ERB), the World Bank, the U.S. Agency for International Development (USAID) and the National Economic and Development Authority (NEDA). The information from NEA was made available in hard copy and in electronic form on disk. The large volume of the information, the fact that it is current information and the willingness of the staff of NEA to make it readily available assisted greatly in the preparation of this report. The author wishes to thank the staff of NEA for its outstanding cooperation and congratulate it for having so much information readily available to aid it and others in the decision making process.

The report will answer the following list of questions which were raised prior to the initiation of this analysis. It will also go on to explore issues that came to light as the analysis progressed.

1) What is the status of the cooperatives? Are they in the public sector or in the private sector?

2) Should or could the electric cooperatives be sold to the private sector?

3) Who has the authority to sell the cooperatives?

4) Who owns the current assets?

5) Who would receive the proceeds of the sale?

6) How would the assets be valued?

7) What are the advantages/disadvantages to a change in ownership?

8) If the cooperatives are to be sold, then which cooperatives - those that are financially viable or those that have financial problems?

9) Can the Philippine capital market absorb the sale of the cooperatives?

10) What would be the impact on private power development, if any?

11) What would be the impact on efforts to expand rural electrification?

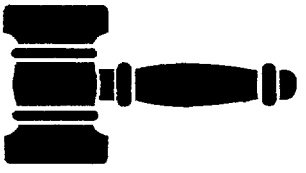
EXECUTIVE SUMMARY

The most important findings in the report will be summarized in this section. The reader can refer to the body of the report and the appendices for additional support for the findings. Two companion reports to this report also provide much useful information. Those reports, by the same author, are titled "Electric Cooperative Mergers/Consolidations in the Philippines" and "Electric Cooperative Service Area Integrity in the Philippines." Key finding in each of the reports are also discussed in the other reports so that each can be read alone.

THE ECs IMPROVING FINANCIAL HEALTH:

In the past three years, there has been significant improvement in the financial health of the ECs. Rate increases have provided necessary revenues. Improved bill collection results and operation and maintenance procedures have combined to lower line losses.

At year end 1992, 89 out of the 118 reporting ECs had positive net margins. If cooperatives with high line losses had been able to bring those losses down to 12 percent in that year, only 10 ECs would have had negative margins. It is reasonable to use 12 percent as a line loss goal. Thus, it is reasonable to expect that with NEA help well over 100 ECs will be reasonably healthy and able to cover current expenses.



BY LAW AND GOV. REGULATIONS THE ECs ARE PRIVATE ENTITIES

It can not be over emphasized that the ECs are private entities, owned by the members, and not subject to being offered for sale by any third party; including the Government. It will primarily be the healthy ECs which will interest prospective buyers. These healthy ECs can honor their debt obligations and thus not be subject to court action to take away the members rights to decide on issues such as sale of the cooperative. The rights of the cooperative member/owners are detailed in the section of the report titled "ANSWERS TO SPECIFIC QUESTIONS RAISED PRIOR TO REPORT."

From an area coverage point of view, the nation is benefitted from keeping the cooperative structure at the ECs. As people oriented organizations, the cooperatives are most likely to stretch to serve the greatest number of people. There is dramatic evidence in the United States to support this conclusion. In that country the electric cooperatives provide service in 70 percent of the land mass of the nation but serve only 10 percent of the people. The investor owned utilities were unwilling to undertake such an effort. Yet, keeping the cooperative form of organization does not preclude the Government from adopting policies to reduce its financial exposure in the field of electrification. If the

Government decides to reduce its capital support of electrification, some ECs can be required to obtain at least some of their new loans from the financial market without Government guarantees. It is not necessary or advisable to attempt to do away with cooperatives in order to reduce future Government supported borrowings by them.

With so many healthy cooperatives, the Government should not pursue a policy of actively seeking change of ownership of the cooperatives. The ECs are, however, private institutions and a particular EC and an investor owned utility may each decide to have the EC taken over by the utility. In this case the Government can have policies to assure that the takeover is in the peoples best interest. A suggested methodology for Government monitoring of such takeovers is given in this report.

The ECs that are not yet healthy are not likely candidates for finding an interested purchaser or an interested new lender.

IMPROVED FUNCTIONING OF NEA:

NEA, on its own and in cooperation with the World Bank, has continued to improve its operation. It has adopted a "Statement of Operating Policy" under which it has sharpened its focus on the need for financial viability of all cooperatives. This, coupled with the conditions which the World bank and NEA have agreed will be put on future EC borrowings from NEA, will make for a healthier financial future for the ECs.

NEA has improved its program of training the ECs. An excellent example of this is the series of regional planning/workshop conferences being held by NEA throughout the country. NEA is taking appropriate opportunities to educate the cooperatives on the commitments NEA made to the World Bank at the time of entering into the last World Bank loan agreement.

NEA has been considering the requirement that some ECs obtain at least a portion of new loans directly from the financial markets and at the same time has been considering the reduction of certain operating controls on those same ECs. **To the extent that NEA reduces its controls on the healthier ECs, it will have more time and resources to devote to the weaker ECs. This approach of focusing more attention on the weaker cooperatives will strengthen the entire NEA program in the nation and should be undertaken.**

REDUCTION OF LINE LOSSES:

The issue of reducing line losses is mentioned throughout the report. The average level of line losses throughout the nation is in excess of 20 percent. Some ECs have losses in excess of 30 percent. Losses should average 12 percent or less. **Improvement in this area holds out the greatest potential for immediate**

improvement in the financial health of the ECs. Continued attention to this issue by both NEA and the ECs is strongly urged.

Suggestions are given in the report on ways in which an individual EC can work to reduce its line losses. Recommendations are also given on ways in which NEA could play an active role in motivating the EC managers and boards to tackle this vital issue. In particular, ways to reduce pilferage are addressed. Please refer to the section titled "PROGRAM FOR THE REDUCTION IN LINE LOSSES" under the "FINDINGS AND RECOMMENDATIONS" portion of the report.

DEBT RESTRUCTURING:

Although the outlook has been improving for both NEA and the ECs, it is not likely that all ECs will be able to fully pay the debt service arrearages already incurred. An innovative approach to restructuring some debts is presented in the body of the report.

The debt restructuring concept outlined in this report would be made available to only the weakest ECs. None of the debt would be written off. However, some debt service payments would be made conditional on certain factors such as unexpected load growth or cheaper than projected wholesale power becoming available.

This approach to debt restructuring has the potential to maximize the debt service payments received over time without forcing a utility out of business.

QUESTIONS AND ANSWERS:

The questions listed in the preceding section were questions being asked prior to the initiation of this report. In fact, the task of providing answers to those questions formed the outline of the scope of work to be undertaken in the preparation of this report.

Answers to the specific questions are provided in the body of the report in the section titled "ANSWERS TO SPECIFIC QUESTIONS RAISED PRIOR TO REPORT." These questions helped focus the analysis done in preparing for the report. The report, however, also addresses additional issues that arose as the analysis progressed.

BACKGROUND AND IMPORTANT TRENDS

This report will now provide information regarding the status of rural electrification in the Philippines. With this background information, the reader can independently asses the value of the answers to the above questions that this report will present.

In the early 1960's the Philippine rural electric program was started. In 1969, Republic Act 6038 was enacted to formalize the rural electrification effort. The NEA was created by Presidential Decree No. 269, and the NEA Charter was established. By 1971 the first EC was energized. By 1992 there were 118 ECs included in the year end reports prepared by NEA. These ECs serve approximately three million connections. The statistics on all of these ECs have been analyzed for the purposes of this report.

Each EC receives its franchise to serve a geographic area. NEA is an interested lender to the ECs. It provides funds and/or materials to the ECs. It also provides guidelines to these borrowers to improve their operations. Additionally, NEA has the right to approve or disapprove the board of directors selection of manager at each of the ECs. The EC obligations to NEA are evidenced through the signing of loan agreements and mortgage documents.

Recently, the central government has given rate approval authority over the ECs to ERB. The established procedure calls for NEA to coordinate closely with the ERB in regard to each EC rate approval request. The NEA recommendation regarding the rate request is sent to ERB.

The National Power Corporation (NPC) is responsible for the national high voltage transmission grid which includes most transmission systems nationwide. It is also responsible for most power generation in the nation. The ECs obtain their wholesale power from NPC and are responsible for the distribution of electricity to many of the provincial urban centers as well as to much of the rural area of the nation.

There are important current trends among the rural electric cooperatives. **The conventional wisdom among those who do not follow the ECs closely is that they are mostly troubled organizations. Current information shows that this conventional opinion is no longer correct.** The general financial health of the rural electrification program in the Philippines did deteriorate in the 1980's. Since the most recent studies were completed on the ECs, however, there has been a positive reversal in the economic health of the ECs. There has also been a useful change in the focus of NEA. This report will document the changed situation, and will make recommendations based on the new outlook for NEA and the ECs.

Appendix "A" summarizes the trends of net margins at the ECs for the years 1990, 1991 and 1992. The cooperatives in each of the nations 12 electrification regions have been grouped into four categories. The first group is those cooperatives whose trend in net margins has improved during the three years. The second group is those cooperatives whose margins have held relatively steady during the most recent three years and whose margin level is generally good. Group three is those cooperatives whose margins have held relatively steady during the three years but whose margin level is generally weak. The last group is those few cooperatives whose margin levels in the past three years have been deteriorating and are at unacceptable levels at this time.

It is particularly important to note that 39 percent of the ECs had improving margins while an additional 36 percent had stable margins at healthy nominal levels. This leaves 18 percent of the ECs with stable margins, but at weak nominal levels, and only 9 percent of the ECs with deteriorating margins in the test period. Bringing distribution rates up to be more in line with costs of operation has produced the changes.

Information from NEA demonstrates that in 1990 the total margins at the 118 reporting ECs was only 25 million pesos. Six of the 12 regions had negative margins on balance. In 1991 total margins had climbed to 396 million pesos, and only one region had a small negative balance. Even in 1992 with a severe "brownout" situation on the power grid, the ECs had margins of 262 million pesos, and only four regions had negative balances--each of these negative balances being small. These figures are listed in Appendix "B". The improved picture on margins is even more impressive when previous years margins are considered. Table 5.4 of World Bank Report No. 9810-PH shows the following total margins for the ECs: (in millions of Pesos)

YEAR	1985	1986	1987	1988	1989
MARGIN	(52)	11	(22)	(8)	(35)

Those figures are in sharp contrast to the 1990-1992 figures.

YEAR	1990	1991	1992
MARGIN	25	396	262 *

As can be seen above, dramatic, but unheralded, changes have taken place at the cooperatives. Changes have also taken place at NEA.

NEA is regaining its proper focus on the ECs. NEA loans to cooperatives will be conditioned on the proper implementation by

* even with brownouts

the cooperatives of "Performance Improvement Programs" (PIP's). These PIP's will focus on five areas.

1. Reduction of technical losses.
2. Reduction of non-technical losses.
3. Improvement of collection efficiency.
4. Better control of non-power costs.
5. Quality of service.

NEA is now guided by a "Statement of Operating Policy" (SOP). Under that SOP, NEA will finance and support projects initiated by the ECs which in the opinion of NEA are technically feasible and which would **maintain or improve the financial viability of the executing utility.** With this renewed focus on EC financial viability, NEA will be a more successful lender again.

There is a "Revitalization Project" underway between NEA and the ECs with cooperation from the World Bank. The World Bank and NEA have agreed to certain conditions regarding NEA's on-lending program which are designed to keep NEA financially strong.

The World Bank Report No. 9810-PH discusses revitalization of the rural electrification sector by, among other things, the "Restructuring of NEA". In particular the World Bank states that "NEA needs to reorient itself to the role of interested lender. As such, it needs to streamline its activities by dropping a number of functions that are not directly related to electricity distribution in rural areas, while strengthening functions that relate to programming, formulation and administration of loans and direct engineering services that enable ECs to implement investment projects. On the financial side, NEA needs to (i) get relief from past loans and other liabilities that it lacks the capacity to repay; and (ii) implement a workable strategy for financing the ECs that includes pricing of new loans at levels adequate to cover costs (including provisions against potential foreign exchange risks), and application of appropriate conditionality."

The World Bank report states that "During 1990-91, NEA greatly improved its investment planning methodology". The report also states that "The ECs that would be financed under the proposed project were chosen at random; they represent a cross section of all ECs based on geographical distribution, operational and financial performance, and future prospects." This is a very important position for the World bank to take. It indicates that the World Bank did not feel it necessary to screen out any ECs from being eligible to receive assistance from its loan to NEA. This is a vote of support for the general rural electrification program in the Philippines.

The work done in preparation of this report also verified that the revitalization of NEA is evident in the background and dedication of the Board and Administrator of NEA. They have not only agreed

to certain conditions in the World Bank loan, but they themselves are determined that NEA be an efficient lender.

For year end 1991, NEA graded the ECs on several criteria and grouped them into four groups--"A" through "D". The grading criteria are included in an NEA memorandum which is attached as Appendix "C". Appendix "D" lists the grade and size of each EC as graded by NEA. Appendix "E" is a table in which this report takes the NEA gradings and further groups the ECs by size within the grades. This will be important for later discussions on the potential for sale of ECs. Reliable data was available for 116 out of the 118 ECs for purposes of this grouping.

While the draft of this report was being finalized, the year end 1992 grading of the ECs by NEA became available. For 1992 NEA rates 49 ECs as "A", 21 ECs as "B", 11 as "C" and 36 as "D". Based on the same grading criteria, it can be seen that the situation improved in 1992. The number to ECs rated "A" went up considerably. The number of ECs rated in each of the three lower categories went down. This is a very encouraging trend.

Independent analysis done for the purposes of this report shows that the ECs are getting healthier. This is demonstrated in appendix "A" and Appendix "B".

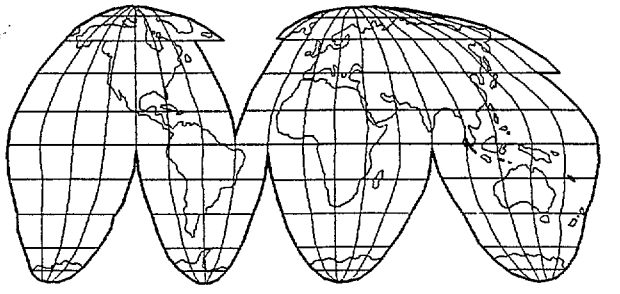
For purposes of this report, analysis was also done on the situation of debt repayment arrearages at the ECs. This has been, and still is, an area of weakness at the ECs. At year end 1992, according to information available at the World Bank, only 26 cooperatives were current in their debt service payments. Analysis for this report shows that at year end 1992, 48 ECs were current on their debt service payments. This is still not a satisfactory figure, but it is a great improvement during the period. Recommendations on methods to deal with previous debt service shortfalls will be given later in the report.

Yet another statistic demonstrating improving trends among the ECs is that of line loss. NEA reports that losses went down from 24 percent in 1988 to 21.68 percent by the end of 1990. Losses stood at 20.79 percent for all the ECs at the end of 1992.

While this improving trend in line losses is encouraging, much more needs to be done. This will be addressed later in the report. Also, Appendix "F" demonstrates expected benefits of additional reductions in line losses. Each EC in the nation was analyzed to estimate the benefits to it of reducing its line loss to the 12 percent level that NEA estimates is the real level of technical line loss to be expected in systems like the ECs. "Losses in excess of 12 percent are normally attributed to non-technical factors, primarily pilferage and poor line maintenance." (See attached NEA Memo to All Electric Cooperatives dated 5/April/93 re: Categorization of Electric Cooperatives--Appendix C). Analysis of

the 866 rural electric cooperatives in the U.S. demonstrates that 12 percent is a reasonably conservative goal in the Philippines. In the U.S. the average of line losses among the 885 rural electrics was 7.6 percent in 1991.

Research was undertaken, for this report, into the availability and reliability of information on line losses at electric cooperatives in other parts of the world. In particular, the situation was reviewed for the cooperative program in Bangladesh, Bolivia, Costa Rica, El Salvador, India, Indonesia, the U.S. and Yemen.



WORLDWIDE ANALYSIS

There is only limited useful data available on electric cooperatives in most parts of the world. In fact, the data available in the Philippines and the U.S. is far superior to that in any other country. Some countries have not established a proper procedure of reporting to a central body. Others have a reporting system that is not yet functioning properly.

The only information that appears to be sufficiently reliable to mention is the following:

In Bangladesh, for the 12 months ending June 1993, 40 electric cooperatives reported an average line loss of 15.59 percent. The Rural Electric Board in Bangladesh is placing considerable emphasis on getting line losses down.

In Bolivia, out of many cooperatives in the nation, only three of the largest had data available for year end 1992. Their line losses were 10.32, 9.29 and 18.80 percent. The number of members served by these cooperatives was 120,616, 23,742 and 3,559 respectively. It can be seen that the weighted average is rather low.

In Costa Rica, two of the four cooperatives reported on line losses in 1992. They reported losses of 10 and 11 percent respectively. However, these figures appear to be estimates and not based on proper metering.

The improving financial health of the ECs, the likelihood they can reduce line losses significantly and the changed focus at NEA combine to change in a positive direction prognostications of the future of rural electrification in the Philippines.

FINDINGS AND RECOMMENDATIONS

THE IMPROVING FINANCIAL HEALTH OF THE ECs:

As can be seen from information presented in the Background and Critical Trends section above, the financial health of the cooperatives has been improving. Further improvement can be expected because of the new initiatives undertaken by NEA as outlined in the SOP, and the improvements in EC procedures that will result from the PIP process. A specific area for improvement on which NEA and the ECs should focus is presented immediately below.

PROGRAM FOR THE REDUCTION IN LINE LOSSES:

CONTINUED FOCUS ON REDUCING LINE LOSSES IS VITAL

It is possible to provide some quantification of the benefits that might result from the improving processes at NEA and the ECs. To take just one very important area of operation will dramatize the additional financial improvements that could be expected. Appendix "F" presents for each cooperative the adjusted 1992 margin that would have resulted if that cooperative had improved its line loss to the 12 percent level. Those ECs which already had a line loss of 12 percent or better were left unchanged. Additionally, Appendix "F" provides a notation for each EC on whether or not its collection efficiency could be improved to bring it up to the national average of 93 percent.

As can be seen from Appendix "F", improvement of line losses would dramatically help an already improving situation on margins. For 1992 28 ECs had negative margins, and four Regions had total margins that were negative. If in 1992 the ECs had improved their line losses so that none was worse than 12 prevent, that step alone would have produced a result where only 10 ECs would have been in the red and only one region--No. XI--would have had a total negative net margin.

One of the most important areas for NEA and the ECs to focus on is the reduction of line losses. Both technical and non technical (pilferage) aspects of line loss need attention. Of course, both NEA and the ECs have already undertaken programs to reduce line losses. This report, however, makes some new recommendations in regard to the pilferage component of line losses.

Better O&M practices will help improve the technical loss situation. Proper sized distribution lines and transformers and good right-of-way clearing are areas that merit additional attention. This area of line losses currently receives significant attention.

The non technical loss improvements will come from a combination of improved collection policies and education of the members. Increased effort are needed to make the meters more tamper-proof, to require that the meter readers check for tampering and to establish a system of accountability for the meter readers. In requiring accountability of the meter readers, the system must also provide them support. It will be very difficult for a meter reader to report certain situations of meter tampering at the premises of an important person. It must be made clear to all persons that the meter reader risks discipline at the EC if he does not report each case of meter tampering. Therefor member education is vital. **It is important that all members understand that a meter reader must report tampering or he risks serious trouble at the EC. It is also important that the ECs provide continuing education to the members that when any member tampers with his meter he puts more burden on his neighbors.**

Each EC could have a task force made up of several cooperative employees. The task force could be charged with checking on site for meter tampering and for possible meter reader problems. Such a meter reading review process could greatly improve the revenue collections at a cooperative.

There is also the ability to bring outside influence to controlling losses at an EC. **NEA could promulgate a rule whereby if losses at an EC are not below a certain level by a certain year, NEA could require a change in managers and/or call for a new board election.** This control at the national level might strengthen the hand of local officials of the ECs as they tackle the difficult issue of eliminating pilferage of energy. New anti-pilferage laws being considered at the national level may also help in this effort. They will not, however, take the place of the recommendations made above in bold type.

The new approach to pilferage of power must be implemented with full respect for the Filipino's high regard for interpersonal relationships. These should not be rules that are promulgated as regulations over which no one has control and that do not recognize the burden placed on the meter reader or the manager. Such rules will not have the respect of the community. Rather these should be rules which are first explained to the members--rules which will help the entire community and which will work only with the help of the entire community. The support of the membership should be sought through a program of education. They should be asked to help the manager and the meter readers do their jobs and keep their jobs.

NEA TRAINING OF ECs:

In addition to member education, mentioned above, continued and expanded training is needed for EC boards of directors, managers

and staff. NEA can play a key role in designing the appropriate training programs.

Already, NEA is taking appropriate opportunities to provide training to the EC,s. The statement of purpose of the Region XI & XII Regional Planning/Workshop Conference is a case in point. The meeting was held in Davao City on June 23-24 and was attended by the author of this report.

The program presented the purpose of the meeting as follows:

"Consistent with the thrust of the National Electrification Administration (NEA) in providing accelerated electrification of the Philippines, these guidelines are set in order to:

1. make the electric cooperatives (ECs) more responsive to the challenge of rural electrification;

2. ensure that programs/projects contained therein have undergone a systematic process of identification, selection and prioritization;

3. provide an updated basis for drawing up the ECs' annual and medium term investment program; and

4. provide a source of updated inputs for NEA's Medium Term Goals and Development Plan.

Further, this exercise will provide a basis for better coordination between NEA and the ECs in scheduling materials and equipment and funding/budgeting requirements. Moreover, it will also serve as a principal management tool for the ECs to determine what they intend to accomplish. how and when this will be done and to measure expected results."

The purpose outlined above was achieved. This is a outstanding example of NEA implementing its agreement with the World Bank. NEA has gotten a handle on the process of educating the cooperatives.

NEA has been sharpening and narrowing its focus. This is consistent with Section 17 of the World Bank report on electrification dated 9/30/91 which cautions against amending NEA's charter to include unnecessary responsibilities.

While the ECs, NEA and the central government will all still have a keen interest in extending service to presently unserved barangays, financial feasibility tests need to be performed rigorously before additional loans are made for new service areas. The ECs need time to focus on improving their financial health and improving existing service. In the long run this will allow them to expand to even more barangays.

NEA ROLE WITH TROUBLED ECs:

Since some ECs serve such difficult franchise areas, it is reasonable to expect some few ECs to encounter troubles for the foreseeable future. Hopefully, NEA's improved educational program for the cooperatives plus suggestions to reduce line loss made elsewhere in this report will reduce the number of troubled borrowers. There may, nevertheless, be cases of non viable ECs.

NEA has a vital role to play in case of default of a cooperative. In line with the World Bank's position that NEA is to fulfill a new role of an "interested lender" in the future, NEA intends to act a receiver in any instance of EC default. In these circumstances NEA is empowered under the law to dispose of a defaulting EC. This will give NEA considerable leverage with a troubled EC. Hopefully, with this leverage NEA will be able to require improvements at a troubled EC and keep it from going into default.

NEA's ability to get each EC to set its rates properly is key to keeping an EC out of default. Therefor, it is vital that the recent move of rate approval authority from NEA to another governmental organization is well handled. NEA and ERB should issue joint rules and regulations on rate setting that clearly articulate how critical it is to the Government and rural electrification that the NEA loans get repaid.

NO PROGRAM NEEDED TO ENCOURAGE SALES OF ECs:

The above information and the attached Appendices support the conclusion that the NEA and the ECs are each getting stronger. Therefor, it is not necessary to develop a program to change the ownership of the cooperatives. Additionally, as can be seen in the section that follows, the ECs are a member owned part of the private sector. As such, it is the EC members who get to decide on whether or not their EC is sold.

On the other hand, there should not be a program to stop transfer of EC ownership if the members vote for such a change and if NEA can approve it as being appropriate in the particular situation.

There may be situations were EC members will desire to sell their cooperative. The consensus in the Philippines is that the likely prospects as purchasers of ECs are the existing electric utilities. There will be interest from outside the electric utilities in owning some generation and transmission level investments. However, the rate of return on an investment in an EC is not likely to be sufficiently high to interest private investors who are not already in the utility business. There may be an interested purchasing utility located near the EC whose members want to sell. These situations must be looked at on a case by case basis. In

such a case the following methodology for purchase of an EC should be considered.

PURCHASE OF AN EC:

When the members of an EC wish to sell the cooperative and there is an interested purchaser (probably a local utility) the following should take place:

o The proposed takeover of the EC should be approved by a referendum of the cooperative members. In accordance with Republic Act 6938, The Cooperative Code of the Philippines, this appears to require a two third,s (2/3) vote of a quorum--twenty five percent (25%)--of the members eligible to vote at a general assembly meeting.

o The takeover should be subject to the approval of the Government. NEA is likely to be the appropriate agency to use to assure the Government's interests are protected.

o An independent appraiser should place a value on the system. The value must recognize that an electric system is worth more than a collection of poles and lines, etc. The value of the franchise territory, including the right to sell power to all loads in the territory is of considerable value. The potential for load growth should be considered. The value should consider any increased value of the cooperatives facilities due to inflation. Where there is outstanding debt to NEA, the appraiser should be contracted for by NEA to assure the Government and the cooperative members that the proper price is established for the sale.

o NEA should prepare an analysis of the financial and technical strength of the prospective purchaser to assure it has the ability to adequately serve the franchise area.

o The purchaser should normally pay off or assume all outstanding debt of the EC. In the case of an EC that can't pay off its debt, the purchaser should demonstrate it can pay off considerably more debt than the EC.

o The purchaser should agree to an area coverage policy for providing electricity in the service area. The consensus of the people interviewed in the Philippines was a conclusion that an investor owned organization will have less interest in extending into light load areas than a cooperative will. The author of this report reaches the same conclusion.

o The purchaser should agree to appropriate protection of the rights of the employees of the EC.

o The purchaser should be required to make additional payments to the EC members when appropriate to reflect the net worth of the cooperative. The Government and the rural electric community can decide if either in law or in equity the NEA is entitled to any share of proceeds in excess of debt and other liabilities. That is, NEA will likely suffer some loss in the sale of weak ECs. Is it entitled to any gain in the sale of strong ECs?

DEBT RESTRUCTURING:

SOME FEW ECs MAY NEVER BE HEALTHY

There is considerable evidence that the ECs are getting stronger financially. They are becoming much more able to cover current expenses including full current debt service. The question of covering previous debt service shortfalls out of current rates is another matter. It is likely that some of the ECs will not be able to collect enough in rates to fully pay off old debt.

The Government should consider an innovative approach to debt service coverage on arrearages. NEA would determine which ECs can not raise rates high enough and/or lower costs sufficiently to eliminate previous arrearages--even over time. These ECs would be required to meet all current expenses including current obligations on old debt. Previous debt service arrearages, however, would be put into a special category.

At least a portion of previous debt service payment arrearages would become contingent debt. It would not be written off. However, payments would be required in the future on the contingent debt only if conditions improve more than currently projected. If conditions do improve more than projected, more load growth for example, then the EC would have certain obligations to make payments on the conditional debt. Formulas can be developed that anticipate improvements that might take place at the EC and determine what additional payments on debt service will be required in such situations.

It is beyond the scope of this report to detail the above outlined approach of debt service payments on arrearages. Such an approach to troubled rural electric cooperatives has been taken in the United States.

It is very unlikely that the ECs that would get such contingent debt treatment, the very weakest of the ECs, will be of much interest to prospective purchasers of electric utilities. Certainly, a prospective purchaser would not want to agree that in addition to the purchase price it would pay additional unknown amounts to cover old debt if unexpected improvements in the financial health of the EC service area take place. The EC may

well agree to such conditions in order to survive as an institution. In this way a contingent debt approach holds out the potential for additional debt service payments if the service area remains served by the EC.

A through financial study of the troubled EC would be needed. It is important that only the minimum amount of debt service arrearages be put in the contingent debt category. NEA would need to assure that no EC was rewarded for keeping its rates artificially low and/or refusing to pay off as much of its arrearages as possible. Local economic conditions put a limit on the level of rates. When it is assured that the cooperative rates are at their proper level, the calculation can be done on the amount of arrearages that can be paid over time under reasonable assumptions. The remainder can be put in the contingent category. In this scenario, the interest rate on the contingent debt would be carried at the weighted average of the arrearage debt.

A term for the contingent debt would be agreed upon by NEA and the EC. During the term of the agreement, the contingent debt payments would be made according to the agreed upon formulas. At the end of the term, as long as the EC had paid according to the formulas, the obligation to make any further contingent debt payment would terminate.

NEA would establish certain tight operating standards for ECs with contingent debt. The money will only be available at an EC for contingent debt service payments if the cost of local operations are as projected. Thus, if the load growth is better than expected and the costs of operation are about as expected, the EC will have some additional funds to pay towards contingent debt.

If NEA enters into contingent debt agreements with ECs, it may also wish to discuss contingent debt concepts with its creditors.

RELATIVELY NEW COOPERATIVE LAWS:

On March 10, 1990, two new laws of importance to the ECs were approved:

Republic Act No. 6939 (RA 6939) created the Cooperative Development Authority. Section 1 of that act specifically "recognizes the cooperative sector." That section also states "The State shall, except as provided in this Act, maintain the policy of non interference in the management and operation of cooperatives."

The inclusion of these provisions in RA 6939 adds support to the conclusion that the ECs are not part of the Government but are private entities.

Republic Act No. 6938 (RA 69388) ordained a "Cooperative Code of the Philippines." There is a difference of opinion in the EC

community and an apparent misunderstanding about one key provision of this act.

Article 74. Limitation on Share Capital Holdings - states that "No member of a cooperative other than a cooperative shall own or hold more than twenty *per centum* (20%) of the share capital of the cooperative."

Some people working in the rural electric community understand that provision to require that an EC allow individuals to purchase extra capital shares in the cooperative in order to qualify as a cooperative under RA 6938. At present the capital contribution of the members has been 5 Pesos per member. This interpretation of extra capital shares would require that an EC allow individuals to contribute capital to the cooperative whether or not the cooperative needed to borrow money and whether of not capital shares was the cheapest source of funds.

Another interpretation of that provision is that a cooperative must issue shares to its members, but that it still has the right to require that only one share be issued to each member for the members original 5 Peso capital contribution. (Article 77. Shares: states that "The method of issuing the share certificates may be prescribed in the bylaws of the cooperative.")

There is some concern that under the first interpretation three or four individuals could make capital share contributions that would give the appearance that they controlled the cooperative by having more that half of the capital shares of the EC. RA 6938 puts limits on the interest that can be paid on capital shares and does not provide additional voting rights for share ownership. Therefor, this concern may be primarily about perception.

It will be useful to clarify the ECs' ability to limit the share capital holding to one share per member. This should address both the concern about perceived control of the cooperative and the issue of having to borrow from members even if no capital is needed. Article 122 provides that "The Cooperative Development Authority and the National Electrification Administration shall jointly promulgate rules and regulations to the end that the provisions of this law are harmonized with the provisions of Presidential Order 269."

Some rural electrification leaders are concerned that if each member is allowed to have different numbers of capital shares, it will be unfair to determine the contribution to the cooperative only on cash contributions. Some members contributed right of way, some helped clear the right of way in the early days at no charge for their labor and some allowed valuable trees to be cut on their land with no reimbursement.

The misunderstanding highlighted here can be clarified at the time the joint rules and regulations are promulgated. The issue continues to cause concern in the industry.

ANSWERS TO SPECIFIC QUESTIONS RAISED PRIOR TO REPORT

The following questions were raised prior to the preparation of this report. The narrative of the report and the Appendices answer these and other questions. For clarity it is appropriate to also answer these questions by the numbers assigned to them earlier in the report. The question and answer approach is useful in this analysis. Serious, specific questions have been raised by interested parties within and outside the Government. Answering these questions directly in this report will allow those who use this report to respond more effectively to questions in the future. Other questions are raised and answered in the body of the report and in the executive summary where appropriate.

1) What is the status of the cooperatives? Are they in the public sector or in the private sector?

They are clearly in the private sector. Of the many documents that demonstrate that the ECs are part of the private sector, the most definitive is Opinion NO. 34 S 1987 rendered by the Ministry of Justice dated March 23, 1987. This opinion is attached as Appendix "G". The last paragraph of the opinion provides an excellent summary. "In view of all the foregoing premises, we reiterate the view that electric cooperatives are not government-owned or controlled corporations; but are private entities subject to the supervision and control of NEA as defined in P.D. No. 269 as amended by P.D. No. 1645."

Additional support for this conclusion is given in Presidential Decree No. 269, Republic Act 6038, Republic Act 6938 and Republic Act 6939.

2) Should or could the electric cooperatives be sold to the private sector?

There is no reason to have a Government program to encourage the sale of ECs. Data and documentation demonstrate that both the cooperatives and NEA are getting stronger and doing the job they were set up to do.

However, the ECs are private organizations. Therefor, if a cooperative's members and an investor owned organization mutually decide that the cooperative be sold, there should be no artificial impediments to the process. This report presents a methodology outline for use in the case of such a sale.

3) Who has the authority to sell the cooperatives?

The members have the right to sell the cooperative subject to the approval of the Cooperative Development Authority and of NEA where NEA debt is involved.

Republic Act No. 6938 in articles 65 and 66 provides the guidelines for voluntary dissolution of a cooperative. The action of the members must be at a legally constituted meeting and according to this act must be resolved by an affirmative vote of at least two-thirds (2/3) of all the members with voting rights at that meeting.

The quorum requirements for a vote of the members must be reviewed on a case by case basis. R.A. 6938 in Article 36 provides "Unless otherwise provided by the bylaws, a quorum shall consist of twenty-five *per centum* (25%) of all the members entitled to vote." The model bylaws presented in NEA Bulletin NO. 24 provide in Article II Section 4 that "A quorum for the transaction at all meetings of the members of a cooperative....having more than 1,000 members shall be five percent of all members or 100, whichever is lesser." The same model bylaws provide in Article VIII Section 1 that the cooperative shall not dispose of, except by consolidation or merger, its property in excess of 10 per cent of the value of total assets unless such disposition is approved by two thirds of all the members of the cooperative.

As can be seen above, sale of more than 10 per cent of the property is dealt with, and merger and consolidations with other cooperatives is dealt with. The sale of the entire cooperative to a non-cooperative is not specifically covered in the regulations, but that activity has been accomplished in the past. The past transactions, as well as reasonable interpretations of the existing regulations can both be a guide on membership voting.

4) Who owns the current assets?

The members are the owners of the current assets. Of course, current liabilities must also be considered.

5) Who would receive the proceeds of the sale?

The EC members, after all liabilities are paid including debt to NEA.

6) How would the assets be valued?

An independent appraiser should be retained. Guidelines for this process are presented in the section titled PURCHASE OF AN EC. It is important that the purchase price include much more than a nut and bolt inventory of the system.

7) What are the advantages/disadvantages to a change in ownership.

The advantages/disadvantages can best be determined on a case by case basis. More discussion on this issue is found earlier in the report in the sections titled THE IMPROVING FINANCIAL HEALTH OF THE ECs and PURCHASE OF AN EC.

As previously discussed in the report and as documented in the Appendices, the financial health of the ECs has been improving. It is expected that the members of the cooperatives will want to keep local control except in cases where another utility can demonstrate it can provide lower rates and/or better service. This is likely to be the case at a small minority of the ECs.

We should expect that there will be interest by a purchasing utility and EC members only where financial studies demonstrate that both systems will be better off after the sale than before. The importance of such studies can not be over stressed.

The above comments address this issue from the point of view of the ECs and their potential buyers. The issue will now be addressed from the point of view of the Government.

The Government may decide that it would like to reduce the equity infusion to the EC sector of the economy. It is not necessary to change the ownership of the cooperatives to accomplish this. This report covers the reasons why a third party can not force the sale of a cooperative that is honoring its obligations. The report will now focus on methods to reduce Government capital infusion to the ECs while still keeping the cooperative form of ownership.

The Government can have a program to require that the healthier ECs go to the private money market for some or all of their new funds without receiving direct Government assistance. This will reduce the future Government obligations whether or not existing debt has

been refinanced. NEA has already been exploring this concept.

NEA must survey the financial markets to determine their willingness to participate in directly financing a portion of the EC community. The terms and conditions of such financing and the likely availability of funds must be known before the ECs can be moved from complete reliance on Government backing. To the extent that this is an orderly transition for the ECs, the financial community will be more encouraged to play a role. NEA has been discussing this issue with the EC community. This is an important step, for in this way NEA can maximize the support it can expect from that sector.

The ECs that are healthy enough to be considered for private financing are also those that should be considered for reduced governmental control. This reduced control may make the requirement to seek some financing elsewhere more palatable. NEA already has grading criteria in place for the cooperatives. These criteria can form the basis of a system to determine which cooperatives should be considered for alternative financing.

A logical first step appears to be to consider the ECs that have received an "A" grade from NEA as the cooperatives that will be asked to seek at least some funds directly from the financial markets. These would also be the cooperatives that would be freed from certain controls and restrictions. For example, budget controls of such ECs could be relaxed by NEA.

ECs are by their nature "peoples organizations." By keeping the cooperative structure, it is possible to maximize the potential for complete area coverage and still reduce the future need for Government equity infusion.

No one should assume that the current equity of the ECs can be financed at the same time that a new financier would undertake to refinance an ECs current debt. It is to be expected that the new financier will want the equity to remain as security for the refinanced debt. The new financier may be willing to pay off some or all of an ECs remaining debt obligation to the Government. This payment on outstanding debt would cause an immediate cash infusion to the Government.

The ECs that are not healthy are not likely candidates for attracting a new financier or a purchaser.

8) If the cooperatives are to be sold, then which cooperatives - those that are financially viable or those that have financial problems?

Based on the analysis done in preparing this report, it is concluded that there should be no program of encouraging the sale of cooperatives.

Market forces may well prescribe that in a few cases cooperatives should be sold for the good of the membership and of the purchasing utility. It is likely to be for the good of the purchasing utility in cases where the EC is already healthy. In an even smaller number of cases, a utility may be willing to purchase an unhealthy EC where its poor financial healthy is purely a case of bad management that could be improved through different ownership.

General expectations should be that there will be few sales of electric cooperatives. It will usually be the healthy ones that are likely to find a purchaser. The decision by the EC and by the purchaser will be made in each case based on financial projections.

9) Can the Philippine capital market absorb the sale of the cooperatives?

The conclusion of this report is that there will be few sales. The sales that do happen will likely be to existing electric utilities. These utilities have proven sources of capital that should be sufficient for the relatively modest number of purchases of cooperatives that may take place.

Additionally, the Republic of the Philippines is considering ways to expand the available credit in the nation. A good case in point is House Bill 8826 that was introduced in June of 1993 to increase the ease of entry in the country of foreign banks.

The capital should be available for the purchases of ECs where economics dictates the transaction.

10) What would be the impact on private power development, if any?

The situation envisioned by this report--where only a few ECs are sold and those sales are dictated by economics--should minimize the impact on private power development. To the extent there is impact, sales of ECs to investor owned utilities may drain away funds that

would otherwise be used for investments at the generation and transmission level.

There is likely to be considerable activity in private power development at the generation and transmission level. The improving financial health of the ECs will improve their ability to work with both the public sector and private developers of generation and transmission facilities.

11) What would be the impact on efforts to expand rural electrification?

The ECs have probably entered into a period of strengthening their financial health and improving their quality of service. This will eventually allow them to extend new service to more barangays than if they over extend at this time. At this time, new barangays will likely be energized only if that action strengthens the financial health of the cooperative.

Even though the cooperatives will need to be very selective in their choices of barangays to which they extend service, they can still be expected to have a greater desire to serve the maximum area than would a profit oriented utility. If the sale of an EC to an investor owned utility is approved, one of the conditions of that sale should be that the purchaser will make adequate commitments to service area coverage.

The companion report on Mergers/Consolidations discusses the possibility of the ECs forming into Generation and Transmission Cooperatives to expand their activities in the transmission area. This could have a beneficial impact on the ECs and the areas they serve.

APPENDIX A

NET MARGIN TRENDS 1992
RURAL ELECTRIC COOPS IN THE PHILIPPINES

	IMPROVING	STATIC AT GOOD LEVEL	STATIC AT WEEK LEVEL	DETERIORATING
REGION I	4	4	1	0
REGION II	4	4	1	0
REGION III	3	7	1	2
REGION IV	9	4	1	0
REGION V	3	7	0	0
REGION VI	4	4	2	0
REGION VII	7	1	2	0
REGION VIII	5	2	4	0
REGION IX	4	2	0	2
REGION X	2	5	4	1
REGION XI	1	0	2	4
REGION XII	0	3	0	2
	46	43	18	11

TOTAL COOPERATIVES ANALYSED 118

PERCENT	IMPROVING	STATIC AT GOOD LEVEL	STATIC AT WEEK LEVEL	DETERIORATING
	39%	36%	15%	9%

APP A

APPENDIX B

MARGINS BY REGION
PESOS (OOO,OOO)

YEAR	1990	1991	1992
REGION			
I	19	73	82
II	6	44	22
III	-16	41	29
IV	-2	41	18
V	19	70	50
VI	-16	63	59
VII	-2	13	18
VIII	-4	20	21
IX	9	3	-17
X	-9	-2	-3
XI	19	19	-9
XII	2	11	-9
TOTAL	25	396	262

TOTAL MARGINS
PESOS (000,000)

1985	1986	1987	1988	1989	1990	1991	1992
(52)	11	(22)	(8)	(35)	25	396	262

APPENDIX C

REPUBLIC OF THE PHILIPPINES

National Electrification Administration

05 April 1993

M E M O R A N D U M :

T O : ALL ELECTRIC COOPERATIVES

SUBJECT : CATEGORIZATION OF ELECTRIC COOPERATIVES

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An annual evaluation of electric cooperative performance is undertaken to ensure a continual monitoring of their operations.

Likewise, this aims to give due recognition by way of incentives and benefits, to electric cooperatives which have shown consistent and/or remarkable improvement in operations.

A set of evaluation criteria had been developed, applicable to all electric cooperatives regardless of size.

The ranking of electric cooperatives within a category has been introduced to allow a better appreciation of their overall performance.

It is expected that electric cooperatives will pursue all efforts to maximize the judicious use of resources to ensure viability of operations.

TEODORICO P. SANCHEZ
Administrator

APP 3

33

1050 CDEC Building, Quezon Avenue, Quezon City, Metro Manila, Philippines • Tel. No.: 99-87-81 to 85

REPUBLIC OF THE PHILIPPINES

National Electrification Administration

05 April 1993

MEMORANDUM TO All Electric Cooperatives

SUBJECT : CRITERIA FOR CATEGORIZATION OF ELECTRIC COOPERATIVES (ECs)

I. Introduction

The NEA evaluates yearly the overall performance of the ECs based on certain key aspects in power utility operations. The end result of this performance review is the annual categorization of the ECs, the objectives of which are to give due recognition, by way of incentives and other benefits, to the ECs that have performed well according to the standard set forth by NEA, and to help identify specific areas in their operations where the relatively less performing ECs can further improve. The same objectives are retained in these revised criteria for categorization which, however, appear more as an upgraded version of the previous gauging system.

II. Purpose

To guide the ECs towards the attainment of a high standard of performance in order to achieve viability in their operations.

III. Policy

The NEA shall continue to pursue an accelerated program for the improvement of coop operation in various aspects. Towards this end, a close monitoring of the performance of ECs is regularly being undertaken so as to update the NEA management on their status.

IV. Criteria: Factors and Scoring System

1. Amortization Payment

This pertains to the ability of ECs to fulfill their loan obligation to NEA in terms of payment of amortizations due. Under this item, ECs with moratorium or whose loans were restructured are treated separately from those with regular loans with the latter given a higher point equivalent.

	REGULAR	W/MORATORIUM	RESTRUCTURED
Current to date	25 pts.	20 pts.	15 pts.
Up to one quarter overdue	20	15	10
Up to 2 quarters overdue	15	10	5
Up to 3 quarters overdue	8	3	-2
More than 3 quarters overdue	0	-5	-10

"REGULAR" - Coops without restructured account with NEA.

"RESTRUCTURED"- Coops with approved restructured loans.

"MORATORIUM" - Coops with approved moratorium on their loan repayments to NEA.

2. Systems Loss

The maximum tolerable systems loss in typical EC is 12%. Systems loss at this level consists of technical losses inherent in the design of the distribution system. Losses in excess of 12% are normally attributed to non-technical factors, primarily pilferages and poor line maintenance.

$$\text{System Loss} = \frac{\text{KwH PURCHASED} - (\text{KwH SOLD} + \text{EC Consumption})}{\text{KwH PURCHASED}} \times 100\%$$

System Loss	Score	System Loss	Score
12% and below	20 pts.	19%	13 pts.
13%	19	20%	12
14%	18	21%	11
15%	17	22%	10
16%	16	23%	9
17%	15	24%	8
18%	14	25%	7
		26% & above	0

KwH SOLD shall exclude consumption of Industrial Consumers tapped to 69 KV.

3. Collection Efficiency

This item refers to the capability of ECs to collect consumer accounts receivables. While the EC may be performing well in other aspects of operation, its inability to collect receivables on time will affect its financial position.

$$\text{COLLECTION EFFICIENCY} = \frac{\text{COLLECTIONS FOR THE YEAR}}{\text{A/R Beg + Sales for the Year - Current Mo. Sales*}} \times 100\%$$

COLLECTION EFFICIENCY	SCORE	COLLECTION EFFICIENCY	SCORE
95% & above	20 pts.	84%	9 pts.
94%	19	83%	8
93%	18	82%	7
92%	17	81%	6
91%	16	80%	5
90%	15	79%	4
89%	14	78%	3
88%	13	77%	2
87%	12	76%	1
86%	11	75%	0
85%	10		

* shall vary depending on the billing cycle of coop

4. Payment to Power Supplier

The ECs buy power from NAPOCOR which they retail, in turn, to their consumers. This is the biggest single expense that the co-op has to promptly settle to assure continuous delivery of service. Inability to settle this on time results to additional surcharges and other penalties, and ultimately disconnection.

	REGULAR		RELENDING	
	WITHOUT Restructure	WITH Restructure	WITHOUT Restructure	WITH Restructur
Current	15 pts.	10 pts.	10 pts.	0
One month overdue	10	5	5	-2
2 months overdue	5	0	0	-4
3 months & more	0	-2	-2	-6

5. Non-Power Cost

In order to encourage the ECs to confine their non-power expenditures within the limits set by the NEA-approved budget in relation to actual collections, appropriate points are added from the over-all ratings of ECs depending on how these expenditures match with the approved budget level.

Within approved budget	-	15 pts.
Above approved budget by 1%	-	14
2%	-	13
3	-	12
4	-	11
5	-	10
6	-	9
7	-	8
8	-	7
9	-	6
10	-	5
11	-	4
12	-	3
13	-	2
14	-	1
15 & above	-	0

6. Bonus Points

6.1 Advance Amortization Payment

As an incentive, ECs which are able to pay advance amortization to NEA are given bonus of one (1) point for every full quarter advance amortization but not to exceed 3 points.

6.2 Significant reduction over past year's systems loss

This is to give recognition to coop efforts in reducing its level of systems loss by a significant percentage. An additional one (1) point is given for every 2% reduction level but not exceeding 2 points.

7. Demerit Points

7.1 Cash Advances to Officers and Employees

As a measure to discourage the ECs from granting excessive cash advances to officers and employees and to encourage them to strictly effect immediate liquidation of the same, an appropriate one (1) point is deducted for every P 50,000 unliquidated cash advances at the end of the year in review.

7.2 Non-submission of Cash Budget and Actual Cash Flow

ECs which do not submit their cash budget for approval and actual cash flow at the end of the year will receive a demerit of 2 points.

8. Over-all Scoring System

Score	Category
75 - Above	A
65 - 74	B
55 - 64	C
54 & below	D

9. Ranking

To encourage continuous improvement of operations of electric cooperatives, ranking based on overall performance within a category is introduced. Thus, each category will have a highest and lowest scoring EC. This will allow ECs to evaluate their own performances and develop constructive competition among them.

V. Implementation

Full implementation of this evaluation system shall cover the operation of ECs beginning Calendar Year 1992.

The Regional Electrification Centers are enjoined to monitor quarterly the categorization of the ECs in their respective regions based on the new criteria. This shall facilitate expeditious action from NEA Management to institute appropriate measures among ECs wanting in good performance.

VI. General

As the Chief Executive Officer, the General Manager should view the coop in its total perspective so as to maintain a clear grasp of the problems besetting its operations. He could then focus his concern and attention on areas where the coop is weak, and give these areas utmost priority in his developmental programs.

In this regard, he would find this evaluation system most useful, being wholistic in approach, applicable to both small and big ECs. Experience-wise, we have seen General Managers who improved one aspect of operations but deplorably failed to develop the other aspects.

This system will help these chief executives maintain a balanced outlook at management performance and further institutionalize within EC management the spirit and commitment to pursue the rural electrification program as a viable entrepreneurship.

TEODORICO P. SANCHEZ
Administrator

APPENDIX D

1991 ELECTRIC COOPERATIVES CATEGORIZATION AND CLASSIFICATION
REGION I – XII

REGION	COOP	CATEGORY	SIZE
I	ABRA	D	Medium
I	BENGUET	D	Extra Large
I	ILOCOS SUR	C	Extra Large
I	ILOCOS NORTE	A	Extra Large
I	LA UNION	C	Extra Large
I	MOUNTAIN PROVINCE	C	Small
I	PANGASINAN I	B	Medium
I	PANGASINAN III	D	Large
I	CENTRAL PANGASINAN	D	Extra Large
II	BATANES	D	Small
II	CAGAYAN I	B	Large
II	CAGAYAN II	D	Large
II	IFUGAO	B	Small
II	ISABELA I	B	Extra Large
II	ISABELA II	D	Large
II	KALINGA APAYAO	C	Small
II	NUEVA VIZCAYA	C	Large
II	QUIRINO	A	Medium
III	PENELCO	A	Extra Large
III	NUEVA ECIJA I	D	Medium
III	NUEVA ECIJA II	D	Extra Large
III	NUEVA ECIJA III	D	
III	PAMPANGA I	D	Medium
III	PAMPANGA II	D	Extra Large
III	PAMPANGA III	B	Extra Large
III	PRESCO	D	Small
III	TARLAC I	D	Large
III	TARLAC II	C	Large
III	ZAMBALES I	D	Medium
III	ZAMBALES II	B	Medium
III	SAN JOSE	A	Medium
IV	AURORA	B	Small

1991 ELECTRIC COOPERATIVES CATEGORIZATION AND CLASSIFICATION
REGION I – XII

REGION	COOP	CATEGORY	SIZE
IV	BATANGAS I	A	Extra Large
IV	BATANGAS II	B	Extra Large
IV	BUSUANGA ISLAND	B	Small
IV	FIRST LAGUNA	D	Medium
IV	LUBANG ISLAND	D	Small
IV	MARINDUQUE	B	Medium
IV	MINDORO OCC.	B	Medium
IV	MINDORO OR.	A	Large
IV	PALAWAN	A	Medium
IV	QUEZON I	A	Extra Large
IV	QUEZON II	B	Small
IV	ROMBLON	B	Small
IV	TABLAS ISLAND	A	Small
V	ALBAY	D	Extra Large
V	CAMARINES NORTE	B	Large
V	MASBATE	C	Small
V	SORSOGON I	D	Medium
V	SORSOGON II	B	Medium
V	FICELCO	D	Medium
V	CASURECO I	C	Medium
V	CASURECO II	B	Large
V	CASURECO III	D	Medium
V	CASURECO IV	C	Medium
VI	AKLAN	B	Medium
VI	ANTIQUE	D	Medium
VI	CAPIZ	A	Large
VI	GUIMARAS	A	Small
VI	ILOILO I	A	Large
VI	ILOILO II	A	Large
VI	ILOILO III	D	Medium
VI	NEGROS OCC.	A	Large
VI	CENTRAL NEGROS	C	Extra Large
VI	VRESCO	B	Extra Large
VII	BOHOL I	A	Large
VII	BOHOL II	B	Large
VII	CEBU I	A	Medium
VII	CEBU II	A	Large
VII	CEBU III	A	Medium
VII	NEGROS OR. I	A	Medium

1991 ELECTRIC COOPERATIVES CATEGORIZATION AND CLASSIFICATION
REGION I – XII

REGION	COOP	CATEGORY	SIZE
VII	NEGROS OR. II	B	Large
VII	BANTAYAN	A	Small
VII	CAMOTES	B	Small
VII	SIQUIJOR	A	Small
VIII	LEYTE I	D	Medium
VIII	LEYTE II	D	Large
VIII	LEYTE III	D	Medium
VIII	LEYTE IV	A	Medium
VIII	LEYTE V	B	Large
VIII	SOUTHERN LEYTE	D	Medium
VIII	SAMAR I	C	Small
VIII	SAMAR II	D	Medium
VIII	EASTERN SAMAR	C	Small
VIII	NORTHERN SAMAR	D	Small
VIII	BILIRAN ISLAND	B	Small
IX	ZAMBO CITY	D	Extra Large
IX	ZAMBO NORTE	B	Medium
IX	ZAMBO SUR I	A	Large
IX	ZAMBO SUR II	A	Medium
IX	BASILAN	D	Small
IX	SULU	D	Small
IX	TAWI–TAWI	D	Small
IX	SIASI ISLAND	–	Small
X	AGUSAN NORTE	A	Extra Large
X	AGUSAN SUR	A	Large
X	FIRST BUKIDNON	B	Large
X	BUKIDNON II	B	Large
X	CAMIGUIN	D	Small
X	MISAMIS OCC. I	D	Medium
X	MISAMIS OCC. II	B	Large
X	MISAMIS OR. I	A	Large
X	MISAMIS OR. II	D	Medium
X	SURIGAO NORTE	D	Medium
X	SIARGAO ISLAND	C	Small
X	DINAGAT ISLAND	D	Small
XI	SOCOTECO I	A	Medium
XI	SOCOTECO II	A	Extra Large
XI	DANECO	A	Extra Large
XI	DORECO	B	Medium
XI	DASURECO	A	Large
XI	SURSECO I	A	Medium
XI	SURSECO II	D	Small
XII	COTELCO	A	Medium
XII	MAGELCO	A	Medium
XII	SUKELCO	B	Medium
XII	LANECO	D	Medium
XII	LASURECO	D	Small

APPENDIX E

COOPERATIVES CATEGORIZED BY SIZE AND FINANCIAL HEALTH

SIZE CATEGORIES EXTRA LARGE, LARGE, MEDIUM AND SMALL

FINANCIAL HEALTH CATEGORIES A,B,C AND D

EXTRA LARGE

FIN. HEALTH	NO. OF CO–OPS
A	7
B	4
C	3
D	6
TOTAL	20

MEDIUM

FIN. HEALTH	NO. OF CO–OPS
A	12
B	9
C	2
D	18
TOTAL	41

LARGE

FIN. HEALTH	NO. OF COOPS
A	11
B	9
C	2
D	5
TOTAL	27

SMALL

FIN. HEALTH	NO. OF CO–OPS
A	5
B	7
C	5
D	11
TOTAL	28

COOPERATIVES ANALYZED 116		% OF TOTAL
EXTRA LARGE	20	**17%**
LARGE	27	**23%**
MEDIUM	41	**35%**
SMALL	28	**24%**
TOTAL	116	

COOPERATIVES ANALYZED 116		% OF TOTAL
A GRADE	35	**30%**
B	29	**25%**
C	12	**10%**
D	40	**34%**
TOTAL	116	

APPENDIX F

FINANCIAL AND STATISTICAL REPORT
For the Year 1992

	Gross Revenue (P'000)	LINE LOSS (PERCENT)	ADJUSTED LINE LOSS (PERCENT)	(LOSS ADJUSTED) GROSS REVENUE (P'000)	NET MARGIN (P'000)	(LOSS ADJUSTED) NET MARGIN (P'000)	COLL. EFF. (PERCENT)	ROOM FOR IMPROVED COLL. EFF.
REGION I								
1 Ilocos Norte	155598	17%	12%	164576	9074	**18052**	104%	
2 Ilocos Sur	141016	25%	12%	165514	9435	**33933**	96%	
3 Abra	32564	27%	12%	39107	4041	**10584**	92%	YES
4 Mt. Province	9798	6%	6%	9798	1727	**1727**	90%	YES
5 La Union	112953	28%	12%	138475	9970	**35492**	105%	
6 Benguet	239739	25%	12%	279937	24375	**64573**	86%	YES
7 Pangasinan I	47835	23%	12%	54319	3203	**9687**	94%	
8 Pangasinan II	155339	36%	12%	214649	816	**60126**	85%	YES
9 Pangasinan III	143601	30%	12%	181482	19688	**57569**	88%	YES
								YES
Sub-total	1038443	26%	12%	1242977	82329	**286863**	93%	
								YES
REGION II								YES
								YES
10 Batanes	1444	5%	5%	1444	191	**191**	94%	
11 Cagayan I	82294	24%	12%	94799	4280	**16785**	84%	YES
12 Cagayan II	63045	29%	12%	77685	3000	**17640**	94%	
13 Kalinga Apayao	15665	20%	12%	17201	437	**1973**	98%	
14 Isabela I	182399	24%	12%	209844	8172	**35617**	103%	
15 Isabela II	94442	27%	12%	113588	275	**19421**	93%	
16 Ifugao	10230	16%	12%	10675	238	**683**	92%	YES
17 Nueva Vizcaya	64504	24%	12%	74977	4635	**15108**	93%	
18 Quirino	21598	15%	12%	22452	373	**1227**	92%	YES
								YES
Sub-total	535621	24%	12%	622711	21601	**108691**	95%	
								YES
REGION III								YES
								YES
19 Tarlac I	99696	26%	12%	118782	7400	**26486**	82%	YES
20 Tarlac II	71716	21%	12%	79463	3390	**11137**	91%	YES
21 Nueva Ecija I	110587	43%	12%	169947	7265	**66625**	82%	YES
22 Nueva Ecija II	84488	32%	12%	110058	−640	**24930**	82%	YES
23 Nueva Ecija III	90281	41%	12%	134087	2901	**46707**		YES
24 San Jose City	39442	23%	12%	44965	275	**5798**	103%	
25 PRESCO	10354	31%	12%	13231	558	**3435**	83%	YES
26 Pampanga I	77793	36%	12%	106324	4094	**32625**	74%	YES
27 Pampanga II	193388	37%	12%	271439	−19527	**58524**	89%	YES
28 Pampanga III	197808	18%	12%	212132	12493	**26817**	85%	YES
29 Peninsula	188879	28%	12%	230152	11528	**52801**	93%	
30 Zambales I	54574	28%	12%	66244	−3348	**8322**	92%	YES
31 Zambales II	72106	33%	12%	94446	2499	**24839**	101%	
								YES
Sub-total	1291112	30%	12%	1630233	28888	**368009**	88%	YES

FINANCIAL AND STATISTICAL REPORT
For the Year 1992

	Gross Revenue (P'000)	LINE LOSS (PERCENT)	ADJUSTED LINE LOSS (PERCENT)	(LOSS ADJUSTED) GROSS REVENUE (P'000)	NET MARGIN (P'000)	(LOSS ADJUSTED) NET MARGIN (P'000)	COLL. EFF. (PERCENT)	ROOM FOR IMPROVED COLL. EFF.
REGION IV								
32 Aurora	20489	15%	12%	21128	845	**1484**	83%	YES
33 Laguna	64127	35%	12%	87486	−2259	**21100**	84%	YES
34 Batangas I	144097	8%	8%	144097	1565	**1565**	101%	
35 Batangas II								YES
36 Quezon I	126023	16%	12%	131909	−39	**5847**	100%	
37 Quezon II	16078	19%	12%	17370	2476	**3768**	96%	
38 Lubang	2779	22%	12%	3144	−153	**212**	90%	YES
39 Mindoro Occ	29843	19%	12%	32256	2409	**4822**	100%	
40 Mindoro Or	72904	21%	12%	81238	2304	**10638**	103%	
41 Marinduque	26949	18%	12%	29075	1263	**3389**	109%	
42 Tablas Island	13700	8%	8%	13700	1877	**1877**	101%	
43 Romblon	3403	8%	8%	3403	95	**95**	111%	
44 Busuanga	3940	19%	12%	4294	−36	**318**	71%	YES
45 Palawan	95913	15%	12%	99048	7719	**10854**	98%	
								YES
Sub−total	620245	17%	12%	660115	18066	**57936**	98%	
								YES
REGION V								YES
								YES
46 Camarines Norte	112218	12%	12%	112516	2710	**3008**	88%	YES
47 Camarines Sur I	62110	15%	12%	64367	3959	**6216**	95%	
48 Camarines Sur II	179040	23%	12%	203895	17272	**42127**	92%	YES
49 Camarines Sur III	66638	19%	12%	72433	−85	**5710**	82%	YES
50 Camarines Sur IV	31092	18%	12%	33245	262	**2415**	97%	
51 Albay	244532	27%	12%	293011	16529	**65008**	77%	YES
52 Sorsogon 1	32402	23%	12%	37140	3715	**8453**	88%	YES
53 Sorsogon II	56229	16%	12%	59070	−29	**2812**	101%	
54 Catanduanes	31064	16%	12%	32409	2127	**3472**	94%	
55 Masbate	25428	9%	9%	25428	3763	**3763**	88%	YES
56 Ticao Is	931	9%	9%	931	−153	**−153**		YES
								YES
Sub−total	841684	21%	12%	932441	50070	**140827**	91%	YES
								YES
REGION VI								YES
								YES
57 Aklan	61926	22%	12%	69872	6124	**14070**	67%	YES
58 Antique	42756	18%	12%	46134	5502	**8880**	87%	YES
59 Capiz	126896	17%	12%	135290	1440	**9834**	99%	
60 Iloilo I	116745	15%	12%	120231	3037	**6523**	99%	
61 Iloilo II	76317	17%	12%	81316	175	**5174**	98%	
62 Iloilo III	34393	16%	12%	35982	3328	**4917**	94%	
63 Guimaras	11664	15%	12%	12131	−569	**−102**	100%	
64 VRESCO	195543	19%	12%	213431	10624	**28512**	95%	
65 Central Negros	492255	17%	12%	521996	20275	**50016**	92%	YES
66 Negros Occ	157531	10%	10%	157531	8799	**8799**	102%	
								YES
Sub−total	1316026	17%	12%	1389643	58735	**132352**	94%	

FINANCIAL AND STATISTICAL REPORT
For the Year 1992

	Gross Revenue (P'000)	LINE LOSS (PERCENT)	ADJUSTED LINE LOSS (PERCENT)	(LOSS ADJUSTED) GROSS REVENUE (P'000)	NET MARGIN (P'000)	(LOSS ADJUSTED) NET MARGIN (P'000)	COLL. EFF. (PERCENT)	ROOM FOR IMPROVED COLL. EFF.
REGION VII								YES
								YES
								YES
67 Negros Or I	44577	15%	12%	46021	2176	**3620**	88%	YES
68 Negros Or II	122987	18%	12%	132611	782	**10406**	94%	
69 Bantayan	13315	−6%	−6%	13315	1255	**1255**	104%	
70 Cebu I	71725	10%	10%	71725	4855	**4855**	100%	
71 Cebu II	120985	7%	7%	120985	6856	**6856**	100%	
72 Cebu III	51567	10%	10%	51567	25	**25**	95%	
73 Siquijor	8850	8%	8%	8850	44	**44**	101%	
74 Camotes	4089	12%	12%	4100	482	**493**	103%	
75 Bohol I	53648	17%	12%	56905	1788	**5045**	106%	
76 Bohol II	35625	20%	12%	39032	−22	**3385**	99%	
								YES
Sub−total	527368	12%	12%	530296	18241	**21169**	98%	
REGION VIII								YES
								YES
								YES
77 Leyte I	33314	24%	12%	38667	−1813	**3540**	95%	
78 Leyte II	125547	31%	12%	159391	6503	**40347**	92%	YES
79 Leyte III	17851	26%	12%	21154	695	**3998**	92%	YES
80 Leyte IV	28602	18%	12%	30646	659	**2703**	100%	
81 Leyte V	95395	16%	12%	99463	6386	**10454**	96%	
82 So Leyte	31867	21%	12%	35299	145	**3577**	97%	
83 Biliran	11612	23%	12%	13254	−80	**1562**	96%	
84 No Samar	22837	22%	12%	25817	385	**3365**	88%	YES
85 Samar I	27255	13%	12%	27463	3729	**3937**	89%	YES
86 Samar II	38614	22%	12%	43544	5219	**10149**	97%	
87 Ea Samar	18295	18%	12%	19594	−612	**687**	98%	
								YES
Sub−total	451189	23%	12%	514569	21216	**84596**	90%	YES
REGION IX								YES
								YES
								YES
88 Zamboanga Norte	44321	19%	12%	47983	−13767	**−10105**	99%	
89 Zamboanga Sur I	77548	16%	12%	80906	5598	**8956**	96%	
90 Zamboanga Sur II	45645	8%	8%	45645	5331	**5331**	105%	
91 Zamboanga City	175134	27%	12%	211282	−20966	**15182**	96%	
92 Basilan	17431	28%	12%	21337	226	**4132**	89%	YES
93 Sulu	23227	18%	12%	24983	6027	**7783**	85%	YES
94 Siasi Island	2353	4%	4%	2353	78	**78**	98%	
95 Tawi−Tawi	5858	29%	12%	7243	888	**2273**	81%	YES
								YES
Sub−total	391517	22%	12%	444469	−16585	**36367**	96%	

FINANCIAL AND STATISTICAL REPORT
For the Year 1992

	Gross Revenue (P'000)	LINE LOSS (PERCENT)	ADJUSTED LINE LOSS (PERCENT)	(LOSS ADJUSTED) GROSS REVENUE (P'000)	NET MARGIN (P'000)	(LOSS ADJUSTED) NET MARGIN (P'000)	COLL. EFF. (PERCENT)	ROOM FOR IMPROVED COLL. EFF.
REGION X								YES
								YES
								YES
96 Misamis Occ I	19841	21%	12%	22161	−1485	**835**	84%	YES
97 Misamis Occ II	69995	22%	12%	79075	2778	**11858**	97%	
98 Misamis Or I	116755	3%	3%	116755	1884	**1884**	107%	
99 Misamis Or II	54099	21%	12%	60329	258	**6488**	84%	YES
100 Bukidnon I	60246	11%	11%	60246	295	**295**	91%	YES
101 Bukidnon II	36681	14%	12%	37631	1661	**2611**	91%	YES
102 Agusan Norte	103709	20%	12%	114730	−4407	**6614**	100%	
103 Agusan Sur	44372	22%	12%	49868	−3208	**2288**	95%	
104 Surigao Norte	48129	24%	12%	55487	1501	**8859**	83%	YES
105 Camiguin	8335	6%	6%	8335	−1452	**−1452**	93%	
106 Siargao	4060	23%	12%	4639	−60	**519**	94%	
107 Dinagat	1215	18%	12%	1302	−384	**−297**	98%	
								YES
Sub−total	567437	15%	12%	585888	−2619	**15832**	94%	
								YES
REGION XI								YES
								YES
108 Surigao Sur I	44499	9%	9%	44499	−2795	**−2795**	105%	
109 Surigao Sur II	20577	21%	12%	22981	1520	**3924**	106%	
110 Davao Oriental	39862	12%	12%	39862	483	**483**	96%	
111 Davao Norte	126163	12%	12%	126163	915	**915**	100%	
112 Davao Sur	70671	14%	12%	71967	−1374	**−78**	98%	
113 So Cotabato I	50080	13%	12%	50739	−2137	**−1478**	98%	
114 So Cotabato II	205247	14%	12%	208892	−5848	**−2203**	96%	
								YES
Sub−total	557099	13%	12%	562804	−9236	**−3531**	98%	
								YES
REGION XII								YES
								YES
115 Lanao Norte	40751	18%	12%	43543	1241	**4033**	103%	
116 Lanao Sur	36996	34%	12%	49515	−9487	**3032**	39%	YES
117 Maguindanao	49135	20%	12%	54156	825	**5846**	90%	YES
118 North Cotabato	42111	15%	12%	43417	−3947	**−2641**	94%	
119 Sultan Kudarat	46784	14%	12%	48004	2486	**3706**	92%	YES
								YES
Sub−total	215777	21%	12%	239951	−8882	**15292**	79%	YES
								YES
								YES
GRAND TOTAL	8353518	21%	12%	9283281	261824	**1191587**	93%	

49

APPENDIX G

G

Republika ng Pilipinas
MINISTRI NG KATARUNGAN
Ministry of Justice
Manila

OPINION NO. 34, S. 19[illegible]

March 23, 1987

The Acting Administrator
National Electrification Administration
D & E Building, Quezon Avenue
Quezon City, Metro Manila

S i r :

This refers to your request for opinion on whether electric cooperatives organized and existing pursuant to the provisions of P.D. No. 269, as amended by P.D. No. 1645, are considered government-owned or-controlled corporations or private corporations.

You state that some quarters claim that electric cooperatives are private corporations or entities because they are covered by the SSS law and not by the GSIS law, and their employees are covered by the Labor Code, and not by the Civil Service Law. However, others believe that electric cooperatives are government corporations because they are subject to the power of supervision and control of the National Electrification Administration (NEA).

A government-owned or controlled corporation is defined in P.D. No. 2029 as follows:

> "SECTION 2. Definition.- A government-owned or controlled corporation is a stock or a non-stock corporation, whether performing governmental or proprietary functions, which is directly chartered by special law or if organized under the general corporation law, is owned or controlled by the government directly, or indirectly through a parent corporation or subsidiary corporation, to the extent of at least a majority of its outstanding voting capital stock:
>
> x x x x x x x x x

It appears that electric cooperatives are non-stock, non-profit membership corporations organized under the provisions of P.D. No. 269, for the purpose "of supplying, and of promoting and encouraging the fullest use of, service on an area coverage basis at the lowest cost consistent with sound economy and the prudent management of the business of such corporations" (Sec. 15, P.D. No. 269).

Cooperatives may be organized by five or more persons, including cooperatives (Sec. 18, id.). Each incorporator shall be a member of the cooperative. Membership shall

also be open only to such other persons who will agree to use services furnished by the cooperative. Such membership is non-transferable, except as provided in the by-laws. An officer or employee of the government shall be eligible for membership in a cooperative if he meets the qualifications therefor. However, the government officer or employee concerned shall not devote official time to the affairs of the cooperative (Sec. 21, id.).

The management of a cooperative shall be vested in its Board, subject to the supervision and control of NEA which shall have the right to be represented and to participate in all Board meetings and to approve all policies and resolutions (Sec. 24, P.D. No. 269, as amended by P.D. No. 1645).

Cooperatives may be dissolved upon a proposition to dissolve submitted to the members of the cooperative at any annual or special meeting and approved by the affirmative vote of not less than a majority of all the members of the cooperative. The certificate of dissolution and affidavit attesting to the truth of the statements in the certificate shall be executed by the President or Vice-President of the cooperative and filed with the NEA. Upon such filing, the cooperative shall cease to carry on its business, except to the extent necessary to wind up its affairs. The board shall wind up and settle the affairs of the cooperative. After discharging all the debts, obligations and liabilities of the cooperative, the board shall distribute all the remaining sums and/or unliquidated assets first to its patrons for the pro rata return of all amounts standing to their credit by reason of their patronage; second, to its members for the pro rata repayment of membership fees; and third, to patrons in respect of amounts contributed for construction they have made. Any other sums/amounts remaining shall be distributed as provided for in the articles of incorporation or by laws (Sec. 33, id.).

Based on the foregoing, we are of the opinion that electric cooperatives are not government-owned or controlled corporations within the meaning of Section 2 of P.D. No. 2029, supra, but they are privately-owned entities.

The members of the cooperative are not government officers or employees. While government officers or employees may become members of a cooperative if they meet the qualifications therefor, such membership is not public and official but private and personal on their part (see Sec. 21, supra).

Neither does it appear that the government controls the membership of the board either by election or by appointment of members. Although NEA has a right of representation in the Board, the composition, qualifications,

the manner of election and filling of vacancies are governed by the by-laws of the cooperative.

The fact that the management of a cooperative is subject to the "supervision and control of NEA" (see Sec. 24, P.D. No. 269, as amended by P.D. No. 1645) does not, to our mind, make the cooperative a government-owned or controlled corporation. "Control" within the meaning of Section 2 of P.D. No. 2029 refers to ownership of shares or voting privilege which if owned or held by the government to the extent of at least a majority of such shares or voting rights would qualify a corporation as a government-owned or controlled corporation.

The power of supervision and control over electric cooperatives, among other entities, has been vested in the NEA by law in aid of its regulatory function over all electric cooperatives throughout the country and to provide NEA "with additional authority to take measures that will better safeguard government inputs in electric cooperatives /by way of loans/ ... that are or will be related to the total electrification effort" (1st and 5th Whereas clauses, P.D. No. 1645).

Thus, in the exercise of its power of supervision and control over electric cooperatives and other borrower, supervised or controlled entities, the NEA is empowered to issue orders, rules and regulations and motu proprio or upon petition of third parties, to conduct investigations, referenda and other similar actions in all matters affecting said electric cooperatives and other borrowers, or supervised or controlled entities (Sec. 10, P.D. No. 269, as amended by P.D. No. 1645).

In case of failure of the electric cooperative or other similar entity to comply with the orders, rules and regulations and/or decisions of NEA or with any of the terms and conditions of the Loan Agreement, the NEA Board may take any of the courses of action allowed in Section 10 of P.D. No. 269 which includes refusal to release or approve a loan, withholding of NEA advances or fund releases, foreclosure of mortgage, or imposition of preventive and/or disciplinary sanctions on the members of the board and officers of the cooperative or other supervised entities.

In view of all the foregoing premises, we reiterate the view that electric cooperatives are not government-owned or controlled corporations but are private entities subject to the "supervision and control" of NEA as defined in P.D. No. 269, as amended by P.D. No. 1645.

Very truly yours,

SEDFREY A. ORDOÑEZ
Secretary of Justice

PERSONS CONTACTED IN PREPARATION OF REPORT

We wish to express our appreciation to the following people who gave so generously of their time to share their ideas and information. Their willingness to share their experience in the Rural Electrification Program in the Philippines has added immeasurably to the value of this report.

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Mr. Roger Adalia, Manager, MIS Div. Planning Dept. NEA
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Mr. Alan Burrell, Mgr. Pwr. Div. East, Asian Development Bank
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Engr. Gregory A. Dukil, General Manager DOECO
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Mr. Yoshio Wada, Overseas Economic Cooperation Fund of Japan

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RESTATEMENT OF NEA POSITION ON THE TAKEOVER OF RURAL ELECTRIC COOPERATIVES BY PRIVATE POWER UTILITIES. Letter and attachment from NEA to NEDA, July 10, 1992

PRESIDENTIAL DECREE NO. 269. Creation of NEA, prescribing its powers and activities. Republic of the Philippines, June 28, 1972.

PRESIDENTIAL DECREE NO. 1645. Amendment to Decree NO. 269, increasing the capitalization and broadening the lending and regulatory powers of NEA. October 8, 1979

LETTER OF IMPLEMENTATION NO. 80. Order to implement the mini-hydro and dendro-thermal projects. February 9, 1979.

PRESIDENTIAL DECREE NO. 501. Relating to the regulatory powers of Local Government and Community Development over cooperatives. June 28, 1974

PRESIDENTIAL DECREE NO. 1370. Amending Decree NO. 269 increasing the capitalization of NEA. May 2, 1978

PRESIDENTIAL DECREE NO. 40. Establishing basic policies for the electric power industry. November 7, 1972

REPUBLIC ACT NO. 6038. Declaration of national policy for total electrification of the Philippines. June 26, 1969

AUTHOR OF THE REPORT

Background information on the author of the report follows on the next page.

BIOGRAPHICAL SKETCH
THOMAS B. HEATH

Thomas B. Heath is chief executive officer of Thomas B. Heath Associates, Ltd., a utility consulting firm.

Until January 1992, Mr. Heath was Assistant to the Administrator of REA and in charge of REA's Financial Services Staff. He was a member of the Senior Loan Committee and personally directed the staff that supports the committee. That committee is responsible for assuring that all significant new financings by REA are feasible. He also was REA's lead representative on workout teams when REA was faced with the possible insolvency of borrowers. He was responsible for resolving approximately $7 billion of troubled debts owed REA.

Mr. Heath previously served in various positions in REA, including Area Director of the Southwest and the Southeast Areas, Director of the Energy Management and Utilization Division and Chief of an Area Engineering Branch. As an REA Field Engineer, Mr. Heath worked directly with utilities in Arizona, New Mexico, Texas, Louisiana and Alaska. While Director of the Energy Management and Utilization Division, he was responsible for REA's nationwide efforts to promote conservation of energy and use of alternative sources of energy.

While employed by the U.S. State Department, Mr. Heath directed, on site, the U.S. Governments participation in projects designed to bring electric and telephone service to areas of Bolivia. In that capacity he also participated in the development of the natural gas and petrochemical industry of Bolivia.

Mr. Heath has also served as advisor/consultant on energy matters to the U.S. House of Representatives' Committee on Interior and Insular Affairs. Additionally, he has taught Peace Corps volunteers on behalf of San Diego State University.

Since becoming a consultant to the utility industry in early 1992, Mr. Heath has had a wide variety of experience. He has served as advisor to three law firms, several Generation and Transmission Cooperatives (G&T's), several distribution cooperatives and an investment institution. A sample of his activities as a consultant follows immediately below.

Mr. Heath has provided expert testimony on G&T and member relationships and on wholesale power rates. He has prepared comparative analyses of distribution cooperatives using a computer model he developed covering all REA borrowers. He has advised storm damaged cooperatives on Federal Energy Management Administration requirements. Mr. Heath has provided advice to a large G&T on the proper balance of its debt portfolio. He coordinated the efforts of his firm and two other consulting firms in the preparation of a strategic planing report for another large

G&T. He has provided advice to a financially troubled distribution cooperative on how best to meet its financial obligations and still remain a viable utility. Additionally, he has provided periodic update reports to clients on new developments of interest to the rural electric community.

A native of Pennsylvania, Mr. Heath holds a B.S. degree in electrical engineering from Pennsylvania State University and is a registered professional engineer.