



PHILIPPINES CLIMATE CHANGE MITIGATION PROGRAM

A Joint Program of the



Philippines Department of Energy



US Agency for International Development

TERMINAL REPORT

Technical Assistance to DOE for Enhancing Private Sector Participation in New and Renewable Energy Investments for Off-Grid Rural Electrification (TASK 1 – Refranchising Study)

Submitted to the:



United States Agency for International Development (USAID)

and the



Department of Energy
Manila, Philippines

By:

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The opinions expressed herein are those of the authors and do not necessarily reflect the views of the USAID.*

TERMINAL REPORT

TASK #1- DEVELOPMENT OF STANDARD FRANCHISE WAIVER AGREEMENT AND EVALUATION OF RE-FRANCHISING

I. BACKGROUND

Energy is recognized as an important ingredient for alleviating the incidence of poverty in rural communities. Rural electrification is therefore a priority program of the Department of Energy and its attached agencies. A major challenge besetting the sector today is how to accelerate expansion of electricity to some 8,000 barangays still outside the reach of the grid. In the past, government has been directly subsidizing these expansion programs, however, with current budget deficits and rising costs of grid extension, the government is hard pressed to continue the same strategy as before.

The involvement of the private sector in the delivery of energy services in the off-grid particularly using decentralized renewable energy systems is viewed as a strategy that can help bridge the funding gap for an accelerated rural electrification program. To encourage the entry of private sector and even LGUs as new industry players, it is important to show that a viable renewable energy market exists and that the new players can enter this market without difficulty.

The DOE is adopting a “market packaging approach” whereby unelectrified barangays are to be clustered into “market packages which will then be studied to determine their feasibility. The DOE requested and the USAID agreed to provide DOE with a technical assistance (TA) under its Climate Change Mitigation Program, for the conduct of specific preparatory activities prior to the preparation of actual feasibility studies.

Objective of the TA

The purpose of the TA is to provide DOE with immediate institutional support, by way of targeted, well-defined activities, for facilitating the entry of private sector investors in the off-grid renewable energy based rural electrification. The TA will enable the DOE to set the stage for a longer term program of transforming the RE-based rural electrification into a viable business proposition for the private sector.

II. Task # 1 – Facilitating the Development of Standard Franchise Waiver Agreement and Evaluation of Re-franchising

Scope of Work

Task # 1 involves the provision of direct technical support for the DOE and NEA in facilitating the entry of private sector in the franchise areas already awarded to electric cooperatives. The task has two components:

a) Development and Adoption of a Standard Franchise Waiver Agreement

- Review and evaluation of “franchise waiver agreements” that have already been signed and implemented by existing private sector investors such as Shell Renewables in Aklan and Palawan, and those which are still being negotiated/to be signed, e.g., those of SB-RESCO;
- Drafting of a “standard franchise waiver agreement” (SFWA) based on findings from (a) the original EC franchises, and from other relevant reference materials;
- Organization and facilitation of meetings and consultations with stakeholders to see their inputs and consensus on the draft SFWA;
- Formalization of the concurrence on the SFWA through signing of Board Resolution by at least two (2) ECs with concurrence by the NEA;
- Promulgation of the SFWA via formulation of DOE policy guidelines on the use of the SFWA by electric coops in dealing with third party energy service investors.

(b) Evaluation and Recommendations on Re-franchising

- Review and evaluation of the Philippine electricity distribution franchise law in relation to DOE’s “market packaging” paradigm for off-grid rural electrification;
- Research, evaluation and analysis of the economic and technical soundness of re-franchising, both in theory and in practice;
- Formulation of recommendation and draft DOE policy directive regarding refranchising in the Philippines.

SPECIFIC DELIVERABLES AND TIMETABLE

The following are the deliverables and their timing as scheduled for Task #1

1. Standard Franchise Waiver Agreement (SFWA)
 - (a) Draft Document End of Week 2
 - (b) Final SFWA document End of Week 5
 - (c) Signed EC Board Resolutions on SFWA
(at least two (2) ECs) End of Week 8

 2. Evaluation Study on Re-franchising
 - (a) Draft Document End of Week 3
 - (b) Final Document End of Week 8

 3. Government/DOE Policy Directive on SFWA
And Re-franchising End of Week 9
- Terminal Report By May 11, 2001

III. Activities Undertaken and Outputs Delivered

1. Development of the SFWA

The development of the SFWA was done using two basic approaches.

a) Review of documents

A review of relevant documents was done to check on the current situation. Among the documents reviewed were:

- NEC policy issuances
- MOAs regarding franchise waivers/transfers by various utilities, i.e., Waivers between ECs, Waiver between an EC and a private utility, Sale of facilities between utilities and etc.
- MOA between Aklan Electric Cooperative, Inc. (AKELCO) and Shell Renewables
- MOA between ZANECO and SB –RESCO

The outputs of the review were used in the formulation of the draft SFWA.

b) Stakeholders Consultation

Extensive consultations with the various stakeholders were carried out. This involved an iterative process whereby a first level consultation was done at the NEA focusing particularly with the office involved in Franchising, namely, National Electrification Commission –Technical Staff (NEC-TS) and Legal Department and Coop Development Group. The results of the consultation were used as inputs in the preparation of a draft SFWA (See ANNEX A & B for list of stakeholders consulted and ANNEX C for comments from NEA). The draft was then discussed with the PHILRECA Board of Directors, the various ECs and NEA officials. In order to broaden the scope of the consultation process, the same draft was disseminated to all ECs with a request for their specific comments and recommendations. Five ECs, namely BENECO, CANORECO, ORMECO, ANECO, and BATELEC II, responded to the request by Fax. Their comments are incorporated in the summary of comments by PHILRECA and the ECs (See ANNEX D)

After receiving and consolidating all the comments, a revised draft was again prepared and this time discussed in a special session with ECs, called for the purpose through NEA. Said consultation was focused on ECs on whose franchises the long list of market packages is located. The SFWA was discussed with the group, looking at each provision in order to ensure that everything was covered and no provision is objectionable.

Again, results of said consultation were used as inputs to prepare the Final Draft SFWA. Finally the same draft was present to the PHILRECA Board and NEA Legal staff (for review of the language) before it was submitted to DOE/PA as the Final SFWA document on April 27, 2001 (See ANNEX E)

Signed Board Resolutions

This task was dependent on the output of Task #4 consultant who was supposed to identify priority projects and from which Task #1 consultant would negotiate for a franchise waiver for said projects. However, up until April 4, 2001 (5th week), the priority sites were not yet identified.

The solicitation for the ECs to pass a Board Resolution (BR) concerning the waiver of selected areas could not be initiated until April 18, 2001, after receiving the long list of Market packages from the Task # 3 consultant. Since the third party is not yet identified, it was deemed appropriate to simply ask for a “waiver in principle” from the ECs in the meantime, until such time that the ECs can do the proper negotiation with an interested third party. After the discussions with the ECs on April 18, those who signified agreement to the possible waivers were requested to schedule the passage of the BR for the franchise waiver in their next Board meeting. Since consultant was dependent on the schedules of the EC Board meetings, it was not possible to simply rush the passage of the BRs. In

order to facilitate approvals, Consultant prepared a “model” Board Resolution which was then disseminated to all the GMs who signified interest and on whose area coverage, selected sites have been included in the long list of market package.

The contract called for 2 ECs to sign-off on a BR waiving selected areas of their franchise. This requirement was exceeded. Efforts by this consultant generated a total of 3 BRs actually signed, i.e., ZAMSURECO I, MASELCO, and ISELCO II.

Initially two (2) ECs, namely CAGELCO I and ZAMSURECO I committed to pass their resolutions within the following week. ZAMSURECO I subsequently passed its BR on April 20, 2001, a copy of which is attached. (ANNEX F) However, the CAGELCO I Board meeting, which was scheduled for April 29 was postponed. Follow-ups with the EC indicated that the BR would be taken up on next scheduled Board Meeting on May 26, 2001.

Meantime, it was learned that two other ECs were also meeting on May 26, 2001. From discussions with the General Manager, MASELCO Board is amenable to pass a BR for the Waiver of Balud municipality but not the other areas. The GM promised to send a letter of intent on this subject by May 12, 2001 (see ANNEX G). Subsequently, the BR was signed on May 26, 2001, a copy of which is attached (ANNEX H).

Discussions were also held with the GM as well as with the Board President of VRESCO for the waiver of unenergized areas in Calatrava Town, Neg. Occ. The GM however informed this Consultant, that several barangays of this town are already included in the “O Ilaw” Program of NPC. In fact, according to the GM, a memorandum of agreement was recently signed between VRESCO and NPC to this effect.

Finally, ISELCO II also signified its desire to have their “market package” considered and agreed to sign a BR for temporary waiver of two municipalities. The BR passed by the EC Board is attached in ANNEX I.

2. Evaluation of Re-franchising

The contract also called for a short, evaluative study on the issue of re-franchising. The activities involved in the conduct of the study included the following:

a) Research and analysis on relevant laws covering franchising

Two basic documents were covered. First the Constitution of the Philippines upon which the legal basis of franchising of utilities emanated. Second, P.D. 269, which delegated the franchising powers of Congress to the NEA/NEC.

- b) Review of existing practices and research on documentary evidence showing difficulties of the ECs in keeping the covenants of the franchise agreement. MOAs and other forms of agreement on temporary and permanent waivers of franchises were reviewed and evaluated.
- c) Selection of sample ECs where many of the barangays remained unenergized. Four (4) ECs were selected from Luzon, Visayas and Mindanao. These ECs were used as sample cases to determine whether the concept of re-franchising is valid or not, from the perspective of the EC's technical, financial and economic viability. Using NEA's project evaluation model, the expansion program of the 4 ECs were evaluated. (See Study on Re-Franchising for details). The idea is to check whether or not the ECs would be able to comply with their franchise mandate of "total electrification on an area coverage basis" within the next 4 years (until 2004).
- d) CAGELCO I Electric Cooperative was selected for a special look at the impact of over-extension of line to the entire network of a coop. Results of the special study were incorporated in the report.
- e) From the results of the evaluation, as to practicality, technical feasibility and economic viability of the current EC franchise, it was then concluded that the concept of re-franchising is valid. The primary conclusion is that without substantial government subsidies, further expansion will only result in the downward spiral of EC operations. Geographic as well as technical and economic considerations confirm that current franchises are no longer optimal and changes need to happen in order that government can continue to pursue and get a chance to attain its goal of total barangay electrification soon.
- f) Recommendations were made on the premise that re-franchising is only the first step. Without any follow-through in terms of the implementation of a concrete off-grid electrification program, any effort at re-franchising will not lead to acceleration of rural electrification.

A draft report on the Franchising Study was submitted May 7, 2001. The draft was subsequently revised considering the comments received from Arlene Pamintuan of PA. The final draft was submitted May 10 to DOE and May 11, 2001 to PA. The final report is being submitted, as a separate document, together with this Terminal Report.

3. DOE Policy Directive on SFWA/Re-franchising

Following the preparation of the SFWA, a draft DOE Circular directing NEA and the ECs to allow third parties to operate in the off-grid areas within the EC franchise was formulated. The Circular likewise specified the use of the SFWA as a model by which ECs may negotiate and contract with third parties for the waiver of their franchise in selected areas. The draft was submitted for

DOE's comments on April 17, 2001. A subsequent draft was resubmitted after incorporating comments from PA's Arlene Pamintuan. Since there were no comments received from DOE the same draft Circular is considered final. (ANNEX J)

IV. Issues and Problems Encountered

1. On the SFWA

The preparation of the SFWA took longer than prescribed in the contract. The reason for this was that it basically took longer time and more effort to consult with the various stakeholders. Scheduling of meetings was difficult as the ECs are based from different parts of the country. Consultant had to time the meetings to coincide with scheduled meetings of the PHILRECA Board or meetings called for by NEA. Even at NEA, one-on-one meetings had to be resorted to in order that one can get comments from all the units concerned. Multiple meetings with the same stakeholders had to be conducted, as the consultation process had to be iterative in order to get the best results.

The Board Resolutions from the EC likewise were not easy to pass, mainly because one had to await the schedules of the Board meetings of the ECs. Careful and patient explaining had to be done to ease the fears of the ECs on the possible entry of for-profit companies in their franchises. For this reason, the ECs preferred to give only "temporary" waivers.

As per agreement, this consultant was to await for the list of priority sites from Task #4 before it can start negotiating for the signing of the BRs. Consultant waited until April 4 but without any success¹. In order to save the situation, Consultant requested permission to use instead the sites for Task #3 – Market Packages as basis for negotiating with the ECs. This suggestion was accepted by DOE/PA on May 4, 2001. However, it was not until April 18, 2001 that the long list of market package sites were made available. In this light, consultant only had a few weeks to negotiate for the BRs. Since meetings of the EC Boards are usually scheduled on the first and last week of the month, it was not possible to get the BRs through by May 11, 2001. An extension was therefore necessary to get another BR approved as per contract. However, this altogether resulted in a positive effect, in that, three (3) were finally signed, instead of just two (2) BRs as required per contract.

2. Study on Re-franchising

¹ Task #4 consultant encountered problems with the GFIs regarding confidentiality of information on projects that were supposed to be evaluated and used as basis for identifying priority sites.

The study took a while to draft because NEA was in the process of revising the work programs of the ECs. Consultant had to wait until this was completed before the expansion programs of the 4 selected ECs could be processed. Several runs of the model had to be done and it took time to counter-check the outputs. Limited information being gathered on the technical condition of the lines did not allow for detailed look at the effect of the expansion on the networks of the sampled ECs. However, a special study was made on the network of CAGELCO I since it has already managed to put all EC data on GIS and therefore there was sufficient information to make a simulation of the line extension projects. A project that would help ECs to put their network on GIS would go a long way to improve technical analysis and decision-making. The upgrading of NEA's investment model would also help to do more solid evaluation of the EC franchises and enable NEA to define what should be included in the grid and which areas should be defined as off-grid. Such model should include choice of technologies particularly for the off-grid.

3. DOE Policy

Receiving comments from DOE would have helped in fine-tuning the Circular further. However, this consultant is confident that all the important aspects are already included in the final draft. What is necessary and outside the purview of this task is the crafting of the document into the form and style that DOE uses for its official policy directives. This is possibly the task of DOE Legal before the document can be forwarded to the Secretary for signature. As of the moment, the style was modeled after a DOE Circular No. 2000-03-004 "Further Amending Energy Regulations No. 1-95 Dated January 2, 1995 Entitled: Rules and Regulations Implementing Executive Order No. 215 on Private Sector Participation in Power Generation as amended by Department Circular No. 97-01-001 Dated January 21, 1997 signed by Sec. Mario V. Tiaoqui. Hopefully this same style is still acceptable to DOE.

V. Estimation of Total Level of Efforts per Deliverable (in Percentage)

1. SFWA	32%
2. Board Resolution	21%
3. Evaluation of Re-franchising	32%
4. DOE Policy Directive	10%
5. Terminal Report	5%
	100%

Note: Total effort took much more than 40 man-days allotted for the purpose.

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LIST OF ANNEXES

Annex No.

- A - List of Stakeholders consulted (NEA)
- B - List of Stakeholders consulted (PHILRECA/ECs)
- C - Summary of Comments (NEA)
- D - Summary of Comments (PHILRECA/ ECs)
- E - Final Draft Standard Franchise Waiver Agreement
- F - Board Resolution on Waiver of Franchise (ZAMSURECO I)
- G - Letter of Intent to Waive Franchise in Balud, Masbate
- H - Board Resolution on Waiver of Franchise (MASELCO)
- I - Board Resolution on Waiver of Franchise (ISELCO II)
- J - Draft DOE Circular on Policy Direction re Waivers of Franchise
- K - Weekly Reports

**TA FOR ENHANCING PRIVATE SECTOR PARTICIPATION IN RENEWABLE
ENERGY INVESTMENTS FOR OFF-GRID RURAL ELECTRIFICATION
TASK #1- ON FRANCHISING**

LIST OF STAKEHOLDERS CONSULTED

National Electrification Administration

1. Dir. Julinette Bayking – Chief of Staff, Office of the Administrator
2. Dir. Yolanda Manundo – Director, NEC-Technical Staff
3. Jun Alferes- Div. Chief, NEC- Franchising Division
4. Rey Fabro – Technical Staff, NEC-TS
5. Atty. Romulo Maristaza – Legal Officer, Department
6. Atty. Nenita Molas – Legal Officer, Legal Department
7. Dep. Leonardo Olaño, Deputy Administrator for Engineering
8. Dep. Edita Bueno – Deputy for Cooperatives Development
9. Dir. Alicia Mercado – Director, Coop Development Department
10. Dir. Nelia Irorita – Director, Planning Department
11. Engr. Roberto del Rosario – Div. Chief, Planning Department
12. Ms. Salome Soriano – Div. Chief, Planning Department
13. Renato Subijano – Technical Staff, Planning Department
14. Engr. Thomas Villaflor - AF/FM Project Head, Engineering Department

**TA FOR ENHANCING PRIVATE SECTOR PARTICIPATION IN RENEWABLE
ENERGY INVESTMENTS FOR OFF-GRID RURAL ELECTRIFICATION
TASK #1- ON FRANCHISING**

LIST OF STAKEHOLDERS CONSULTED

Electric Cooperatives/ PHILRECA

1. Rizalino M. Culalic – President, PHILRECA and Gen. Manager, PANELCO III
2. Ben C. Cañete – Board President, LEYECO II and Secretary, PHILRECA
3. Wilfredo Billena – Gen. Manager, ILECO II and Treas. PHILRECA
4. Gerardo P. Verzosa – Gen. Manager, BENECO and BOD PHILRECA*
5. Edilberto I. Bassig – Gen. Manager, CAGELCO I, and BOD PHILRECA**
6. Pio Mariñas – Gen. Manager, SOCOTECO I and BOD PHILRECA
7. Jose S. Dominguez – Gen. Manager, ZAMECO II and BOD PHILRECA
8. Augustus I. Portem – Gen. Manager, CANORECO and BOD PHILRECA*
9. Carlos B. Itable – Gen. Manager, BOHECO I and BOD PHILRECA
10. Resnoc C. Torres – AMRECO Board President
11. Cyril E. Tria – Gen. Manager, ILECO I
12. Wendell Ballesteros – Gen. Manager, PHILRECA
13. Luvelindo Natividad – Acting Gen. Manager, MASELCO**
14. Ludovico Lim – Gen. Manager, ANTECO**
15. Danilo T. Davila, Sr. – Gen. Manager, VRESCO**
16. Francisco Savellano – OIC, ISELCO II**
17. Oscar L. Pueblos – Gen. Manager, SAMELCO I**
18. Ponciano R. Rosales – Gen. Manager, SAMELCO II**
19. Roy F. Merro – Gen. Manager, DORELCO/LEYECO I**
20. Patrick A. Flores – Gen. Manager, NUVELCO**
21. Gil Altamira – Gen. Manager, ILECO III**
22. Gabriel Tordesillas – Gen. Manager CAGELCO II**
23. Eduardo B. Castor – Gen. Manager, ZANECO**
24. Decca Judilla – Gen. Manager, ZAMSURECO I**
25. Horacio T. Santos – Gen. Manager, ANECO*
26. Alex C. Labrador – Gen. Manager, OMECO*
27. Evangel Manundo – Gen. Manger, BATELEC II*
28. Christopher Rios – Gen. Manager, CENECO
29. Alberto Canlas – Gen. Manager, NOCECO

Note: All ECs were sent copies of the draft SFWA for their comments by FAX.

* ECs that responded to the call for comments by FAX

** ECs on whose franchise areas the short-listed market packages are located.

**TA FOR ENHANCING PRIVATE SECTOR PARTICIPATION IN RENEWABLE
ENERGY INVESTMENTS FOR OFF-GRID RURAL ELECTRIFICATION
TASK #1- ON FRANCHISING**

Summary of Comments from NEA

1. The NEC-TS confirmed that the current franchises boundaries are no longer optimal. They attested that many ECs resort to internal arrangements between among themselves, to correct deficiencies in the franchise. Most common of these is the arrangement whereby one EC services a municipality/ies belonging to a neighboring franchise. In these instances, waivers of franchises are resorted, too.
2. Monitoring of all the on-going arrangement is difficult. Legally however, all these arrangements must be approved by NEC, as the Franchising Authority that gave out the franchises to the ECs.
3. There is no objection on the part of NEA to the idea of drafting a Standard Franchise Waiver Agreement (SFWA) as this would simply institutionalize what is already happening in a number of ECs. NEA likewise acknowledged that since the agency cannot accommodate all the financial requirements of ECs for extending the grid to all the unserved areas, and that the ECs without financial assistance, particularly in the form of subsidies cannot implement their line expansion projects, then the entry of third parties in the off-grid should be encouraged.
4. The SFWA is perceived as a good transition. In case the EC and the third party agree to a permanent transfer of franchise in the future, the NEA would have no difficulty evaluating the franchise application of the third party as it is already operating in the area.
5. As the legally constituted authority on franchising, NEA/NEC has to approve the SFWA before it becomes executory.
6. The SFWA should have a specific period of waiver.
7. LGUs need not be a party to the contract if they are not specifically giving any monetary or fiscal incentives that will directly benefit the off-grid project. LGUs cannot be the recipient of any facilities turned over by third parties after end of contract as they are not authorized to operate, maintain and distribute power unless granted a franchise to do so by NEC.

8. ECs, six months prior to expiration of the franchise waiver agreement has to be evaluated, as to whether or not it would like to reassume franchise jurisdiction over the area. On a case to case basis, the arrangements, including monetary value for transfer of infrastructures set up by the third party should be specified in the contract in case of a re-take by the EC.
9. Tariff rate should be consistent with ERB rules.
10. Efficiency and quality standards must also be consistent with NEA/ERB standards
11. In case of conflict, there should be an exhaustion of executive avenues first before matters are brought to any court. NEA can be an arbiter in case of conflict with its decision subject to an appeal with DOE.

NOTE : Meetings were held on iterative basis using working drafts of the SFWA until it was finalized.

**TA FOR ENHANCING PRIVATE SECTOR PARTICIPATION IN RENEWABLE
ENERGY INVESTMENTS FOR OFF-GRID RURAL ELECTRIFICATION
TASK #1- ON FRANCHISING**

Summary of Comments by PHILRECA/ECs

1. The concept of an SFWA is generally ok. This is applicable for ECs that still have a lot of unserved areas. Each of the ECs should be able to evaluate their capability to energize their remaining areas and if not, they should be open to other arrangements.
2. Some ECs welcome the idea as they are amenable that they would not be able to serve their remaining unserved barangays between now and the DOE/NEA target date of 2004. However, they feel that the waivers should only be on a temporary basis. An outright waiver would appear that they are renegeing on their mandate.
3. While some EC managers agree that most of the areas in the long-list of market packages are candidates for the franchise waiver, they are not ready to commit outright because they are apprehensive of negative reactions from the Board of Director who represents the same area in the EC Board. The issue is that if an area is waived, this would render the representation of its respective Board Member as unnecessary.
4. The ECs are generally concerned about the tariff rates that the third party service provider would charge. ERB regulation on the tariff is preferred.
5. The service provider should ensure continuous delivery of services and apply for permanent franchise should the EC decide not to reassume franchise jurisdiction.
6. However, the ECs are also concerned that the service provider should only generate power sufficient for the needs of its service area and not go beyond it, meaning become a competitor of the ECs on its grid, once the open access provision is passed.
7. Each EC should determine for itself whether the participation of the LGU in its negotiation for the FWA would be relevant or not. For some ECs, they prefer to involve the LGUs to avoid future political conflicts.

8. A suggestion was offered on the possibility of the EC also including an already connected area in the FWA. While most ECs agree that they have connected areas that would be better off if energized on a decentralized manner, they would not like this provision to be specifically included in the SFWA because they are apprehensive that this would open them up to political maneuvers by some LGUs that would like to take-over their systems. ECs by nature are very prone to political pressures and they would like to, as much as possible, avoid this.
9. Two ECs committed pass a waiver in principle for selected areas in their franchise. These are ZAMSURECO I and CAGELCO I who were both scheduled to hold their Board Meetings on the week of April 23.
10. Some ECs requested for the list of interested service providers. It was however explained to them that the areas will still be marketed and that a feasibility will be done on the priority market packages before they are offered to private sector.

FINAL DRAFT

**MEMORANDUM OF AGREEMENT
(STANDARD FRANCHISE WAIVER AGREEMENT)**

KNOW ALL MEN BY THESE PRESENTS THAT:

This Memorandum of Agreement is entered into by and between:

(THE ELECTRIC COOPERATIVE), a corporate entity organized and existing pursuant to Presidential Decree (P.D.) 269, as amended, represented herein by its President _____ and referred to hereinafter as EC;

AND

(XYZ COMPANY), a corporation organized under the laws of the Republic of the Philippines, represented herein by _____ and referred to hereinafter as the SERVICE PROVIDER;

AND

(LOCAL GOVERNMENT UNIT – OPTIONAL)

WITNESSETH:

WHEREAS, the EC has been granted the franchise in the province of _____ covering the municipalities of _____. ... , to operate and distribute electricity services on an area coverage basis pursuant to P.D. 269, as amended, provided that the financial viability of the EC is not impaired;

WHEREAS, as the franchise holder, the EC has the sole right and responsibility to provide adequate, dependable and reasonably priced electric services within its franchise;

WHEREAS, the EC desires to extend electricity services to all barangays within its coverage; however, it has determined that it cannot economically extend its distribution lines to some barangays located far from its existing grid;

WHEREAS, the SERVICE PROVIDER has offered to finance, install/construct and operate decentralized energy systems to service designated areas within the EC franchise on a commercially sustainable manner;

WHEREAS, the SERVICE PROVIDER has the financial and technical capability to provide such services;

WHEREAS, the EC agrees to waive its franchise privilege to the SERVICE PROVIDER, covering some selected areas and for a reasonable period of time, in order to accelerate electrification of the entire coverage area by 2004, pursuant to the national Rural Electrification Program;

NOW THEREFORE, for and in consideration of the foregoing premises, the Parties hereto resolve and agree as follows:

UNDERTAKING BY THE EC

1. The EC hereby waives its franchise over the following areas:

(List of specific areas)

for a period of (specify duration) years.
2. The EC shall provide assistance to the SERVICE PROVIDER by way of facilitating networking with LGUs and National Government agencies to ensure integration of this off-grid electrification program with national and local development plans.
3. The EC shall undertake oversight monitoring of the operations of the SERVICE PROVIDER to ensure compliance of the terms and conditions of this Agreement.
4. The EC, six (6) months prior to the expiration of waiver, shall evaluate whether or not it is ready to takeover the provision of services to the areas covered by the waiver; Should the EC decide to reassume jurisdiction over the subject areas, it agrees to take over the systems installed therein, including all the equipment and physical structures, after paying the SERVICE PROVIDER, the assessed and reasonable price, (parties may specify transfer price formula) as the value thereof; Otherwise, the SERVICE PROVIDER may continue to operate the systems until such time that the EC fully pays the agreed amount or be allowed, after due notice and given reasonable time, to remove and transfer all its energy service delivery assets from the service area at its own cost.

Should the EC decide not to reassume franchise jurisdiction, the same shall be construed to mean that the SERVICE PROVIDER may apply for permanent franchise over the area with the National Electrification Commission (NEC).

UNDERTAKING BY SERVICE PROVIDER

1. The SERVICE PROVIDER shall provide energy services to all the barangays covered by this waiver as specified in Section A.1 above, at rates as approved by the Energy Regulatory Board (ERB);
2. The SERVICE PROVIDER shall construct, install and provide the infrastructure, equipment and products necessary to distribute electricity services in the above areas, at its own cost and according to the agreed work program, hereto attached and considered as part of this Agreement; not to exceed a maximum of (specify) years;
3. The SERVICE PROVIDER shall ensure continuous delivery of services to consumers in accordance with quality and efficiency standards as agreed, to wit (specify agreed standards);

Provided that, the same quality and efficiency standards are consistent with those set by Department of Energy (DOE), National Electrification Administration (NEA) and Energy Regulatory Board (ERB);

5. The SERVICE PROVIDER shall ensure sufficiency of funds necessary for the delivery services in the capacity and time frame agreed and as required by consumers in the service area;
6. The SERVICE PROVIDER shall allow the EC and NEA to monitor its operations and submit to both organizations transparent cost information and such other information necessary to ensure compliance to this Agreement;
7. The SERVICE PROVIDER shall, upon termination of this franchise waiver, agree to turnover ownership of infrastructures, equipment and products established at the site, subject to the terms and conditions stipulated in A.4 of this Agreement;

**UNDERTAKING BY THE LGU
(Optional, only if LGU agrees to provide specific
assistance/contribution to the Service Provider)**

1. Provide local permits
2. Provide subsidy and/or equity
3. Assist in getting national permits (ECC, etc.)

PROVISION COMMON TO ALL PARTIES

1. *Effectivity Clause.* The Parties hereby understand that this Agreement shall take effect only upon the approval of the NEC/NEA, the government agency that granted franchise rights to the EC.
2. *Pre-termination, Extension or Modification Clause.* The EC reserves the right to pre-terminate this franchise waiver agreement, in case of non-compliance by the Service Provider with any of the terms or provisions of this Agreement, upon confirmation by NEA; Otherwise, any pre-termination, extension or modification of this Agreement shall be done only upon mutual consent of herein parties, provided that in such cases, the party negatively affected shall not be precluded from seeking financial or monetary consideration for said pre-termination, extension or modification.
3. *Conflict Resolution Clause.* Should there be any unsettled issues arising from this Agreement, both parties agree to seek the assistance of the NEA, which shall act as arbiter in the resolution of these issues, subject to appeal to DOE.

IN WITNESS HEREOF, all the parties hereto have caused this Agreement to be signed and executed this ____ day of _____ at _____, Philippines.

For the EC:

For XYZ Company

Signed in the presence of:

Approved:

NEA Administrator

(REPUBLIC OF THE PHILIPPINES)
(PROVINCE OF _____) S.S
(City of _____)

BEFORE ME this _____ day of _____, 2001, in the municipality of _____, Province of _____, Philippines, personally appeared _____ with his residence certificate no. _____ issued on _____, 2001 at _____ and _____ with their residence certificates no. _____ issued on _____, 2001 at _____, respectively, known to me to be the same persons who executed the foregoing document and they acknowledged the same to be their own free voluntary act and deed.

WITNESS MY HAND AND NOTARIAL SEAL on the date and place first above written.

Notary Public
PTR No.
Until December 31, 2001
TAN

Doc. No. _____
Page No. _____
Book No. _____
Series of 2001.

EXCERPT OF THE MINUTES OF THE 4TH SPECIAL BOARD MEETING OF THE ZAMSURECO-I BOARD OF DIRECTORS HELD ON APRIL 20, 2001 AT DAT'S DINER CONFERENCE ROOM, PAGADJAN CITY.

Present:		
Leopoldo A. Colegado	-	President/Presiding
Camila T. Diaz	-	Vice President
Protacio S. Elmudulan Jr.	-	Secretary
Rogelio A. Mondarte	-	Treasurer
Nora Y. Quiñones	-	Auditor
Merwin P. Reyes	-	P.R.O
Custodio S. Mayol	-	Member
Teodoro J. Yanayan Jr.	-	Member
Gervacio A. Rapa	-	Member
Decca O. Judilla	-	Ex-Officio Member/General Manager
Also Present:		
Atty. Alexander A. Acain	-	Legal Counsel
Corcini M. Saliga	-	Finance Manager
Tita C. Pallesca	-	Institutional Manager
Henry V. Gumapon	-	Technical Services Manager
Joanith C. Espra	-	Internal Audit Manager
Rogelio V. Lumo	-	Area I Manager
Fredie B. Vergara	-	Area III Manager
Melanie C. Libas	-	HRD-O
Absent:		
Joanith C. Espra	-	Internal Audit Manager

**BOARD RESOLUTION NO. 88 s. 2001
A RESOLUTION TEMPORARILY WAIVING THE EC'S FRANCHISE
OBLIGATION TO OTHER ELECTRIC SERVICE PROVIDERS TO
ENERGIZE THE UNSERVED BARANGAYS IN THE
MUNICIPALITIES OF MIDSALIP AND SOMINOT**

WHEREAS, The municipalities of Midsalip and Sominot are part of the franchise of Zamboanga del Sur 1 Electric Cooperative, Inc. (ZAMSURECO-1);

WHEREAS, The Board recognizes the necessity to energize all barangays within its franchise in line with the Government's target of energizing 100% of barangays by 2004;

WHEREAS, For lack of sufficient funds and in consideration of the far distance of the above-cited municipalities from the main grid of the EC, it is not possible for the EC to connect said municipalities to its grid within the short-term;

WHEREAS, In order to accelerate electrification of these municipalities, it is practical and more cost-effective to allow other service providers to provide funds and operate decentralized systems in these areas, for a limited period, until such time that the EC can already serve the area efficiently and viably;

✓

NOW THEREFORE, on motion of BM Elmidulan, Jr. duly seconded it was

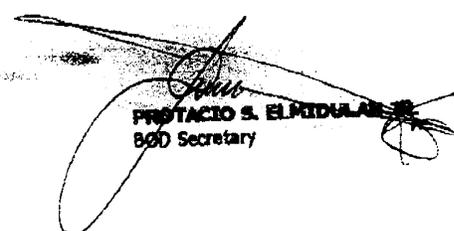
RESOLVED AS IT IS HEREBY RESOLVED to, in principle, allow a private party service provider to put -up decentralized energy systems and distribute electricity services to the unserved barangays of Midsalip and Somint, subject to subsequent approval by Board of the Franchise Waiver Agreement to be signed by and between the EC and the Service Provider, and subject further to approval of the same Waiver Agreement by the National Electrification Commission through NEA;

RESOLVED FURTHER, to authorize the General Manager to begin negotiation with any interested party and prepare all necessary documents to put into effect this resolution;

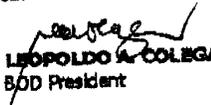
RESOLVED FINALLY, to furnish copy of this resolution to the National Electrification Administration (NEA) and to Region IX Electrification Director Engr. Patricio Dela Peña for information, comments and reference.

APPROVED UNANIMOUSLY."

I hereby certify to the correctness of the foregoing resolution.


PROTACIO S. ELMIDULAN, JR.
BOD Secretary

Approved:


LEOPOLDO A. COLEGADO
BOD President

OCT-08-91 20:54 % :%

TEL:623+5-850H89+49043 6 P:01

**MASBATE ELECTRIC COOPERATIVE, INC.
(MASELCO)**

Pinamarbuhan, Mobo, Masbate

May 12, 2001

MS. GRACE S. YENEZA
Consultant, USAID Project Off-Grid
Rural Electrification

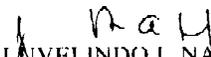
Dear Ms. Yeneza:

This has reference to the technical assistance for enhancing by private sector participation in renewable energy investment for off-grid rural electrification, wherein you identified several barangays in our franchise area as possible recipient of subject project.

As we had mentioned in our meeting last April 18, 2001, we prefer the barangays located in the Municipality of Balud to be included in the said project.

We will send you our official confirmation and the franchise waiver agreement as soon as our Board of Directors have meet and officially approved the same.

Very truly yours,


LEVELINDO I. NATIVIDAD
Acting General Manager

MILES*WORD.L2USAP

MASBATE ELECTRIC COOPERATIVE, INC.
(MASELCO)
Pinamarbuhan, Mobo, Masbate

MINUTES OF THE REGULAR BOARD MEETING OF THE BOARD OF DIRECTORS
ON MAY 26, 2001 AT MASELCO BOARDROOM, PINAMARBUHAN, MOBO, MASBATE

RESOLUTION NO. 19
Series of 2001

RESOLUTION TEMPORARILY WAIVING MASELCO'S FRANCHISE OBLIGATION TO
ENERGIZE VARIOUS UNENERGIZED BARANGAYS

- WHEREAS, various unenergized barangays are part of the franchise of Masbate Electric Coop., Inc. (MASELCO);
 - WHEREAS, the Board recognizes the necessity to energize all barangays within franchise in line with the Government's target of energizing 100% of barangays by 2004;
 - WHEREAS, for lack of sufficient funds and in consideration of the far distance of various barangays from the main grid of MASELCO, it is not possible to/for MASELCO to connect said Municipalities to its grid within the short-term;
 - WHEREAS, in order to accelerate electrification of these Municipalities, it is practical and more effective to allow other service providers to provide funds and operate decentralized systems in these areas for a limited period until such time that MASELCO can already serve the area efficiently and viably;
- NOW THEREFORE, on motion of Director Efren F. Abejuela duly seconded by Director Antonio Z. de Jesus, be it
- RESOLVED, as it is hereby resolved to, in principle, to allow a private party service provider to put-up decentralized energy systems and distribute electricity services to various unenergized barangays, subject to subsequent approval by the Board of the Franchise Waiver Agreement to be signed by and between MASELCO and the Service Provider, and subject further to approval of the same Franchise Waiver Agreement by the National Electrification Commission through NEA;
- RESOLVED further, to authorize AGM Luvelindo I. Natividad to begin negotiation with any interested party and prepare all necessary documents to put into effect this resolution;
- RESOLVED finally, to furnish a copy of this resolution to NEA and its Regional Office for information and reference

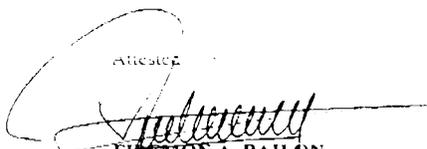
Unanimously approved.

I hereby certify to the correctness of the foregoing resolution

Certified Correct.


ALBERTO L. ANTONIO
Secretary

Attested


FILIMON A. BAILON
President

ISABELA II ELECTRIC COOPERATIVE, INC.
Alibagu, Ilagan, Isabela

EXCERPT FROM THE MINUTES OF THE REGULAR BOARD MEETING OF THE BOARD OF DIRECTORS OF ISELCO II HELD ON MAY 18, 2001 AT THE COOP BOARD ROOM, ALIBAGU, ILAGAN, ISABELA.

- | | | |
|----------|-------------------------|-------------------------|
| Present: | ANDRES M. PASCARAN | President |
| | PETE GERALD L. JAVIER | Vice President |
| | LEONARDO N. PAGUIRIGAN | Secretary |
| | JULITO C. UY | Treasurer |
| | ERNI G. BAGGAO | Auditor |
| | FRANCISCO B. DURLAO | P.R.O. |
| | JAIME C. PURUGGANAN | Member |
| | LORETO V. MARTINEZ, JR. | Member |
| | FRANCISCO B. SAVELLANO | AGM & Ex-Officio Member |

RESOLUTION No 30 s., 2001

RESOLUTION TEMPORARILY WAIVING
THE ISELCO II FRANCHISE OBLIGATION
TO ENERGIZE THE UNSERVED BARANGAYS
IN THE MUNICIPALITIES OF BENITO SOLIVEN
AND SAN MARIANO, ISABELA.

WHEREAS: Some far flung barangays in the Municipalities of Benito Soliven and San Mariano, Isabela are not yet energized and are considered unviable barangays and part and parcel of the franchise area of the Isabela II Electric Cooperative, Inc.;

WHEREAS: The Board recognizes the necessity to energize all barangays within its franchise area in line with the Government's target of energizing 100% of barangays by year 2004;

WHEREAS: For lack of sufficient funds and in coordination of the far distance of the above-cited barangays in the two municipalities concerned from the main grid of the Coop, it is not possible to connect the lines in these barangays to its grid within the short-term required;

WHEREAS: In order to accelerate electrification of these far flung barangays in the two municipalities, it is practical and more cost effective to allow other service providers to provide funds and operate decentralized systems in these areas, for a limited period, until such time that the EC can already serve the area efficiently and viably.

WHEREFORE, on motion of Dir. Erni G. Baggao duly seconded by Dir. Leonardo N. Paguirigan, it was;

RESOLVED AS IT IS HEREBY RESOLVED TO, in principle allow a private party service provider to put up decentralized energy systems and distribute electricity services to unserved barangays of Benito Soliven and San Mariano, Isabela, subject to subsequent approval by the Board of the Franchise Waiver Agreement and or Memorandum of Agreement to be signed by and between the Coop and the service provider; and subject approval of the same Franchise Waiver Agreement by the National Electrification Commission through NEA;

CERTIFIED TRUE COPY
OFFICE OF THE BOARD

RESOLVED FURTHER; To authorize the General Manager to begin negotiation with any interested party and prepare all necessary documents to put into effect this Resolution;

RESOLVED FINALLY, to furnish a copy of this Resolution to NEA and its Regional Office for information and reference.

UNANIMOUSLY APPROVED BY THE BOD en banc.

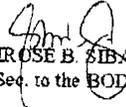
I HEREBY CERTIFY TO THE CORRECTNESS OF THE FOREGOING RESOLUTION OF THE BOD.

(SGD) LEONARDO N. PAGUIRIGAN
BOD Secretary

ATTESTED BY:

(SGD) ANDRES M. PASCARAN
BOD President

CERTIFIED TRUE COPY FROM THE ORIGINAL FILE

Certified by:  **MARROSE B. SIBAYAN**
OIC Sec. to the BOD

**CERTIFIED TRUE COPY
OFFICE OF THE BOARD**

Draft for DOE Consideration

DEPARTMENT CIRCULAR No. _____

**ENCOURAGING PRIVATE SECTOR PARTICIPATION
IN RURAL ELECTRIFICATION BY ALLOWING THIRD PARTY ENTRY INTO
THE FRANCHISE AREAS OF ELECTRIC COOPERATIVES
BY VIRTUE OF TEMPORARY WAIVER OF FRANCHISE
IN SELECTED AREAS**

WHEREAS, consistent with the national policy of economic growth with social equity, the Department of Energy (DOE) aims to improve access to energy by all sectors of society through the acceleration of rural electrification;

WHEREAS, the DOE, through NEA targets to energize 100% of barangays by year 2004;

WHEREAS, by virtue of their franchise, the ECs have the sole right and responsibility to provide adequate, dependable and reasonably priced electric services within their franchise areas;

WHEREAS, the ECs desire to extend electricity services to all barangays within their coverage; however, some ECs would not be able to economically extend their distribution lines, particularly to those located far from its existing grid without full government subsidies;

WHEREAS, the government lacks the necessary resources to continue granting full subsidy to support the expansion plans of ECs.

WHEREAS, the government wishes to optimize the use of its resources and leverage its funds with other non-government fund sources in the rural electrification sector;

WHEREAS, increased private sector and other third party participation in the rural electrification efforts is essential; and in order for this to take place, it is necessary to provide the legal means for third party access to the unserved areas within the EC franchises;

NOW THEREFORE, the DOE hereby adopts and promulgates the following policy directives for the rural electrification sector.

Section 1. *Entry of New Players.* New players may be allowed to provide energy services in the unserved areas of the EC franchises, provided that the EC franchise holders agree to such arrangement;

Section 2. *Franchise Waiver by ECs.* The entry of new players into the EC franchise areas shall be governed by a Franchise Waiver Agreement entered into between the EC and the Service Provider as approved by the National Electrification Commission/NEA.

Section 3. *Use of Standard Franchise Waiver Agreement.* To facilitate negotiations between parties, the ECs are encouraged to use the attached Standard Franchise Waiver Agreement (SFWA) in forging their agreements with new players.

Section 4. *Encouraging ECs to Allow Private Sector Participation.* NEA shall encourage the ECs to undertake the Franchise Waiver approach to allow private sector participation in their respective coverage areas, particularly, in selected sites, where ECs can no longer economically connect to the grid; Provided however, that if an interested party is willing, the EC may also consider waiving its franchise for selected areas which are already connected to the grid but continued operation, of which, is a financial burden to the EC.

Section 6. *Conduct of Information Drive.* In support of this policy direction, the NEA is directed to conduct appropriate information drive among ECs to disseminate this new policy and encourage ECs to use the SFWA.

Section 7. *Review of Franchise Agreements.* It is recognized that over the last thirty years, there have been significant changes in the economic and physical developments in each of the franchise areas that justifies the need to review the franchises granted to ECs. For this reason, the NEA is therefore directed to review all existing franchises for the purpose of determining the need to re-modify said franchises based on current condition of the EC and the franchise area itself. If such need is found to be inherently beneficial, the NEA shall then proceed to prepare an implementation plan for undertaking an appropriate franchise reform program.

Section 8. This Circular shall take effect immediately a day after its complete publication in at least two (2) newspapers of general circulation.

Fort Bonifacio, Taguig, Metro Manila _____, 2001

Secretary
Department of Energy

**TA for Enhancing Private Sector Participation in RE
Investments for Off-Grid Rural Electrification**

**Task #1 – Weekly Report #1
by G.S. Yeneza**

Target for the Week:

To gather relevant information regarding existing franchise waiver agreements between ECs and RESCOs and conduct initial consultations with NEA/NEC-TS.

Activities Undertaken:

1. Contacted Silver Navarro/NEA and Laurie Navarro to request for a copies of the Shell Renewables/CPC waiver agreement and Smith-Bell RESCO draft agreement with Zamboanga del Norte Electric Cooperative (ZANECO) as mentioned in the TOR.
2. Met with the officers of the National Electrification Commission-Technical Staff to discuss work assignment, consult their views and request relevant documents. During the meeting, the following information were gathered:
 - a. That there had been a number of requests for transfer of franchise rights between two ECs, between ECs and PIOUs, and between ECs and small entrepreneurs/multi-purpose cooperatives;
 - b. That these transfers of franchise are done either on a temporary or permanent basis; and
 - c. That in many cases, waivers of franchise by ECs are made through simple Board Resolutions and not through contracts/MOA.

Requested the NEC-TS for sample copies of relevant Board Resolutions as well as their comments on the waiver agreement between Shell/CPC and Aklan Electric Cooperative (AKELCO). NEC-TS agreed to provide these by Mar. 20.

3. Visited the Office of the NEA Corporate Secretary and gathered information on policies concerning the grant of franchise rights to utilities.
4. Conducted initial discussions with NEA Legal Officer to gather his thoughts on the subject of re-franchising and requested for his comments on the Shell/CPC and AKELCO waiver agreement.
5. Discussed with NEA Director for Coop Development to determine possible schedules of consultations with ECs and Philreca.
6. Reviewed the two agreements, Shell/CPC and AKELCO agreement and the SB-RESCO and ZANECO draft agreement. Noted that the subject of the SB-RESCO agreement is that of a PPA and not about waiver of franchise.

Target for Next Week: To do further consultations, gather comments from NEC-TS and NEA Legal Office and some Philreca Officers. Prepare initial draft for standard franchise waiver agreement (SFWA) to be used as discussion paper during consultations.

**TA for Enhancing Private Sector Participation in RE
Investments for Off-Grid Rural Electrification**

**Task #1 – Weekly Report #2
by G.S. Yeneza**

Target for the Week:

To do further consultations, gather comments from NEC-TS and NEA Legal Office and some Philreca Officers. Prepare initial draft for standard franchise waiver agreement (SFWA) to be used as discussion paper during consultations.

Activities Undertaken:

1. Prepared first draft of SFWA was prepared and submitted to DOE/PA Consulting.
2. Discussed first draft of SFWA with NEC-TS, NEA Legal Officer and NEA Director for Coop Operations and requested for their further comments.
3. Sent letter to PHILRECA requesting for consultations with PHILRECA Board on Mar. 27, 2001 (their schedule for the month).
4. Requested PHILRECA to send copies of draft SFWA to PHILRECA Board members for their comments.
5. Followed-up request for information from NEC-TS on previous waivers of franchises submitted for notation/approval by NEC.
6. Conducted research on viability of further extensions to the grid by ECs with remaining unserved areas.
7. Organized pictures and descriptions of projects to be given as inputs to Task 2 and Task 6.

Target for Next Week: To do further consultations, gather comments from NEC-TS and NEA Legal Office and NEA officials on first draft of SFWA. Meet with PHILRECA Board on Mar.27, 2001. Prepare final draft of SFWA. Get Rosvid's inputs on possible project sites and begin to contact ECs involved in these sites. Prepare initial report on re-franchising.

**TA for Enhancing Private Sector Participation in RE
Investments for Off-Grid Rural Electrification**

**Task #1 – Combined Weekly Reports #3-6
Combined Report for Period March 16-April 15, 2001
by G.S. Yeneza**

Target for the Period:

1. Prepare initial draft for standard franchise waiver agreement (SFWA) to be used as discussion paper during consultations.
2. Conduct further consultations, gather comments from NEC-TS and NEA Legal Office and NEA officials on first draft of SFWA. Meet with PHILRECA Board on Mar.27, 2001.
3. Prepare final draft of SFWA.
4. Get Rosvid's inputs on possible project sites and begin to contact ECs involved in these sites.
5. Prepare initial report on re-franchising.
6. Coordinate with NEA on the holding of consultative meeting with ECs to discuss final draft of the SFWA.

Activities Undertaken:

1. Prepared a revised draft of the SFWA and discussed this further with NEC-TS, NEA Legal Officer, DA for Technical Services and NEA Director for Coop Operations.
2. Held consultation with PHILRECA Board last March 29, 2001 (meeting originally scheduled on Mar. 27, 2001) and discussed the rationale and merits of the SFWA as well as gather their initial comments on the first draft document. The Board was informed that a copy of the draft document was sent to all ECs in order to broaden the base of the consultation process. The Board agreed that based on the comments gathered, Consultant will prepare a final draft to be presented in a subsequent meeting to be held on April 19, 2001.
3. Met with selected EC managers in Region VI (CENECO, VRESCO, ILECO I and NOCECO) and discussed the draft SFWA. In said meeting, there was one important suggestion made, i.e., that the SFWA should also consider including some areas which may already be connected to the grid using subsidy funds but are found to be burdensome to the ECs. It was suggested that these areas, if removed from the EC franchise and included in a market package may in fact help to improve viability of a market package.
4. This consultant believe this may be a good idea to consider particularly for small island systems where the poblacion is already serviced by the EC but the entire area

can in fact be operated as a decentralized system by a private operator. A good example may be the municipality of Laoang in NORSAMELCO.

5. Followed-up with Rosvid Sunico, Task #4 Consultant, for the list of ECs on whose franchise possible projects are being contemplated and for which Waivers of Franchise will be necessary. However, based on discussion with Mr. Sunico, Arlene Pamintuan of PA Consulting and Reuben Quejas and Fely Arriola of DOE, no candidates were identified under the list being considered by the Project Evaluation Contractor. Hence this consultant proposed and it was agreed that instead, consultant will select 2 of the most appropriate ECs from Task #3 - market packages and proceed to get the EC Boards to sign Board Resolutions on Waiver of Franchises to support the market packages. Consultant however, indicated apprehension that because of the delay in the selection of sites and due to the limited time, the actual signing of the Board Resolutions may not happen during the period of the consulting contract. Best effort however, will be done to try to advance the signing of the Board Resolution at the earliest possible time.
6. Met with Cooperatives Development Director to coordinate a meeting with selected ECs re draft SFWA and Market Packages. It was agreed that a meeting will be called by NEA in the afternoon of April 18, 2000 for the purpose. Consultant drafted a letter for DOE's signature requesting NEA to hold such meeting. Draft letter was sent to Mr. Reuben Quejas last April 6, 2001.
7. Discussed with NEA Planning Staff and requested to sample a selection of ECs to test the viability of further extensions to their grid. Held discussions with Planning Staff on how the assumptions will be up-dated to ensure validity of results. Sample runs using current NEA Investment Analysis Model will be used in the to show necessity for re-modification of the franchises of selected ECs. A draft report has been prepared and will be submitted as soon as sample runs are completed. NEA Staff promised to provide sample runs by April 20, 2001.
8. Prepared draft DOE Circular on Private Sector Participation in Off-grid Electrification and use of the SFWA by the ECs.

Target for Next 2 Weeks:

1. Complete draft of franchising study.
2. Conduct final consultation with ECs. Select two sites for which EC Board Resolutions for waivers of franchise will be requested.
3. Prepare draft Board Resolutions, schedule meeting with EC Boards and discuss said resolutions with ECs (site visits) to seek Board Approvals.
4. Submit Draft Refranchising Study
5. Finalize DOE Circular

**TA for Enhancing Private Sector Participation in RE
Investments for Off-Grid Rural Electrification**

**Task #1 – Combined Weekly Reports #7-8
Combined Report for Period April 16 - 30, 2001
by G.S. Yeneza**

Target for the Period:

1. Conduct consultations with ECs on whose franchise areas market packages have been identified
2. Prepare Final Report based on Consultations with ECs
3. Complete draft report on re-franchising
4. Begin negotiation with at least two (2) ECs for the passage of Board Resolution on Waiver of Franchise

The activities identified above are based on some adjustments made on my work program due to the following:

1. Consultations with ECs and the Philreca had to be scheduled based on their scheduled meetings in Manila. Since there was no funding provided for the calling of a special meeting in Manila, the NEA had to be requested to call such meeting. The meeting schedule therefore had to conform to the schedules of other NEA meetings with the ECs in order to conserve on EC travel funds. Consultations on the draft and final draft of the SFWA had to be done on an iterative process and this took more time than was scheduled under my contract. However, such iterative process was useful in ensuring that sufficient information and discussions on the purpose as well as detailed provisions included in the SFWA were engendered.
2. Consultation with Mr. Rosvid Sunico, Consultant for Task # 4 did not result in the identification of two (2) ECs where Board Resolution on Franchise Waivers may be secured. In order to solve this gap, this consultant suggested that instead, ECs where market packages are identified, from Task #3 can be utilized as the target ECs for the subject Board Resolution. This decision was made only on April 5, 2001 in a meeting at the PA Consulting Office with Mr. Reuben Quejas, Fely Ariola, Rosvid Sunico and Arlene Pamintuan in attendance.
3. Subsequently, efforts were made by this consultant to meet with Arlene Lafrades, consultant for Task #3 to get her list of market packages. The list was finally provided on April 16. Meantime, this consultant was able to arrange with NEA to call for a meeting of ECs on April 18 to discuss the SFWA and generate EC concurrence on the passage of a Board Resolution for the waiver of franchise on some selected areas.
4. Meantime, completion of the draft refranchising study was also delayed because Consultant had to wait for some revisions and up-dating on the work program of ECs being done by the NEA Planning Group. Such information was necessary in order to

analyze the extent that ECs desire to extend their grids, the cost of planned extension and whether or not such extension is economically feasible or not.

Activities Undertaken:

1. Based on the developments above-mentioned, consultation with ECs were conducted on April 18, 2001. Fourteen (14) of fifteen (15) ECs invited were able to attend. Philreca Executive Director Wendell Ballesteros was also present in said meeting. The final draft of the SFWA was presented and the ECs were allowed to comment on each provision. There were no adverse position presented, except for the provision where the ECs are given allowed to also waive their franchises to areas already connected with the grid. While they are willing to do this, they were citing possible political pressure from LGUs if such provision is included. However, they agree that should there be any interested party, they are willing to negotiate for inclusion on already connected areas, if this can improve the market and if there are no adverse reaction from the consumers in said areas.
2. In order to facilitate the passage of Board Resolutions (BR) by the ECs, this Consultant volunteered to draft a simple Board Resolution for the consideration of the EC. A draft BR was prepared and a copy was provided to the ECs. At least 2 ECs were having their Board Meeting before end of April. In this regard, detailed discussions were held with the General Managers of these 2 ECs to get their commitment to pass the BR.
3. A meeting with Philreca Board was held on April 19, 2001. In said meeting the final draft SFWA was presented. Consultant also made a report on the result of discussion held with the ECs the day before. Again, the Philreca Board concurred with the suggestion not to include the waiver, areas that are already connected. The draft BR was also discussed and there were volunteers from some Philreca members to discuss the same with other ECs in their regions. They were interested to find out whether there are already parties that have signified interest in undertaking decentralized electrification in the off-grid areas.
4. Consultant worked with NEA staff to determine the viability of line expansion programmed by ECs between 2001-2004. Sensitivity analysis using NEA Investment Planning Model were done. Results of this are expected to come out by May 3, 2001. Results will be incorporated in the Refranchising Study.
5. Final draft of the SFWA was prepared based on the meeting with the ECs and Philreca.
6. A revised draft of the DOE Circular was also prepared incorporating comments made by Arlene Pamintuan of PA Consulting. Said draft was transmitted to Dir. Francis Benito and Reuben Santos of DOE for their comments. No comments have so far been received from DOE, on the first draft of the Circular. A follow-up with DOE will be made.

**TA for Enhancing Private Sector Participation in RE
Investments for Off-Grid Rural Electrification**

**Task #1 – Weekly Report #9
Period May 1-7, 2001
by G.S. Yeneza**

Target for the Period:

1. Complete draft report on re-franchising
2. Follow-up negotiation with at least two (2) ECs for the passage of Board Resolution on Waiver of Franchise
3. Begin Draft of Terminal Report

Based on adjusted work programmed, the following were accomplished during the week.

1. Completed draft of the Re-franchising Study.
2. Follow-up on the ECs that have signified willingness to pass Board Resolution (BR) for Waivers of Franchise in selected areas within their franchise. In the absence of an identified party, the BR will contain only a general provision indicating willingness of EC to a temporary waiver of franchise, the details of which will be further negotiated between the parties later on.
3. The progress of the BR passage are as follows:
 - ZAMSURECO I reported that its BR will be for ratification on May 6, 2001.
 - CAGELCO II had to a postponement of EC Board Meeting postponed scheduled for April 29 to May 8, 2001.
 - MASELCO also reported that a BR on the Franchise Waiver is already included in their agenda for May 9, 2001 Board Meeting.
 - Other in the prioritized list of market packages were also asked to pass their respective BRs. However, this will have to wait for the next scheduled Board Meeting.

These ECs will be follow-up within the following week to ensure passage of the BRs. To facilitate the passage of the BRs, I prepared a model BR for consideration of the ECs. (see attached)

It should be noted that because I worked on the long-list of the market packages, the ECs that had been asked to pass their BRs on Franchise Waivers are not all included in the prioritized list. This somehow creates difficulty because the ECs may expect that if they pass the BR, their area would be included in the priority list. Note also that since the Prioritized List of Market Packages was only given out on May 3, there was no way that I could delay negotiation for the signing of the BRs until the Priority List were identified.

4. Consultation summaries were prepared as part of the Terminal Report.