



Review on the Possible Consolidation of Electric Cooperatives

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This Report is prepared by the
Wholesale Electricity Spot Market (WESM) –
Technical Committee

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1.0 Background

On 30 August 2023, PEMC President Elvin Hayes E. Nidea requested the Technical Committee (TC) to review the parameters in consolidating Electric Cooperatives (EC) to reduce the number of ECs, with the objective of making them more efficient and financially stable.

This document aims to:

1. Review applicable rules and policies on EC consolidation, and
2. Provide examples of current practices where ECs consolidate their processes and requirements.

2.0 Introduction

Consolidation of ECs in this report refers to a union of two or more existing cooperatives belonging to the same category to form a new cooperative called the consolidated cooperative.

Electric Cooperatives (ECs) are electric distribution utilities organized and registered pursuant to Presidential Decree No. 269, as amended, Republic Act No. 10531, and other related laws.

Pursuant to Section 6 of Republic Act 10531, otherwise known as the “National Electrification Administration Reform Act 2013, the National Electrification Administration (NEA) has supervisory and disciplinary powers over the 121 electric cooperatives all over the Philippines. In cases of ailing ECs, the NEA shall immediately step in and take over from its board the operations of any ailing electric cooperative.

3.0 Review of Rules, Policies, and Guidelines

The TC reviewed the current policies and guidelines related to consolidation of electric cooperatives and various services that may aid the electric cooperatives in improving their performance and services.

3.1 Policy of NEA on the Performance of Electric Cooperatives

In NEA Memorandum No. 2020-049 entitled “Policy for the Classification of Electric Cooperative (ECs) and Guidelines for the Declaration of Ailing ECs”, NEA has established various standards and parameters to assess the performance of ECs and to further classify which among the ECs require NEA’s intervention in their operation.

To determine the classification of ECs, Table 1 provides the key performance standards and parameters used by the NEA.

Table 1. Key Performance Standards and Parameters

	Parameter	Standard
1	Cash General Fund	At least one (1) month working capital for power and non-power costs
2	Collection Efficiency	95% and above (annually reviewed)
3	Accounts Payable to Power and Financial Institutions	Current/Restructured Current
4	Results of Financial Operation	Positive
5	Net Worth	Positive
6	System Loss	Within the cap
7	Reliability (SAIFI/SAIDI)	Within the standard set by the Philippine Distribution Code (PDC)

Based on their compliance to the parameters provided in Table 1, the ECs are then classified as follows:

Table 2. Classification of Electric Cooperative (EC)

Classification	Definition
Green	ECs met all seven (7) parameters and standards;
Yellow-1	ECs failed to comply with not more than three (3) parameters and standards;
Yellow-2	ECs failed to comply with four (4) or more parameters and standards. In addition, ECs which fall under any of 7 circumstances but not yet declared as red or ailing EC.
Red	ECs which were declared and classified as ailing EC after observance of due process.

Among these classifications, Yellow-2 and Red ECs are subjected to NEA's close monitoring and NEA's full intervention, respectively. EC's may be subjected to NEA's full intervention when they are declared as ailing under the following circumstances¹:

- a. Has negative net worth for the last three (3) years. For this purpose, "Negative Net Worth" shall mean as the financial condition of an EC in which its liabilities are greater than its assets;
- b. Has accumulated ninety (90) days arrearages in power supply purchases from generating companies and power suppliers/source of electricity, and the transmission charges by the Transco or its Concessionaire;

¹ Department of Energy, Department Circular, DC 2013-07-0015

- c. Unable to provide electric service due to technical and/or financial inefficiencies, and/or institutional problems;
- d. Unable to efficiently perform its electric distribution utility obligations or continue in business due to organizational, external, and internal factors;
- e. When an EC has failed to meet other operational standards established by the NEA; and
- f. Unable to set up or continuously support its Wholesale Electricity Spot Market prudential requirements.

Also, the following are the interventions that may be recommended by NEA:

- Creation of Task Force Power and Management Teams
- Designation of Acting General Managers and/or Project Supervisors
- Appointment of NEA Representative to the EC Board of Directors (BODs)
- Formulation and Issuance of new and relevant Policies and Guidelines
- Round Table Assessment of the implementation of plans and program
- Provision of loans and subsidies
- Capacity Building for EC management and staff
- Member-Consumer-Owners (MCO) Empowerment Program
- Financial, institutional, and technical service facilities

The ailing ECs, with early intervention from NEA, may enter a partnership with the EC National/Regional Organization and/or the private sector investor. Within the Cooperative-to-Cooperative Approach (C2C) or Task Force Kapatid (TFK) the following partnerships may be considered:

1. Merger
2. Consolidation
3. Special equipment and material lease agreements,

In case of consolidation and merger, the new or surviving cooperative shall be responsible for all the liabilities and obligations of each of the consolidating or merging cooperative², as if such merged or consolidated cooperative had initially incurred such liabilities or obligations itself.

However, NEA has no issued guidelines on the procedure for the merger or consolidation of ECs.

3.2 Rules on Competitive Selection Process (CSP)

On 04 July 2023, the Department of Energy (DOE) published Department Circular (DC) No. 2023-06-0021, entitled “Prescribing the Policy for the Mandatory Conduct of the Competitive

² Section 31(c) of the [Presidential Decree No. 269](#)

Selection Process by the DU for the Procurement of Power for their captive market”, which took effect on 19 July 2023.

In this policy, ECs are mandated to conduct CSP to secure supply of electricity based on the evaluation criteria to achieve least-cost supply to their captive market based on NEA issued guidelines and in accordance with ERC Resolution No. 16, Series of 2023, entitled “Implementing Guidelines for the procurement, execution, and evaluation of power supply agreements entered into by DU for the supply of electricity to their captive market”.

Rule IV, Section 8 of the ERC resolution specifies that DUs may choose to aggregate their demand or energy requirements, solely for the purpose of procuring their supply of electricity through CSP. In the same ERC Resolution, DUs that jointly conducted CSP are not severally and jointly liable to other DUs, with respect to their individual PSAs. In addition, these DUs shall agree on the process of constituting a Joint Bids and Awards Committee (BAC).

Some of the ECs that jointly conducted CSP to procure power supply for their captive customers are as follows:

Table 3. ECs That Conducted Joint CSP

Area	Electric Cooperatives
Federation of Rural Electric Cooperatives in Region 8 (FRECOR 8)	NORSAMELCO, SAMELCO I, SAMELCO II, ESAMELCO, DORELCO, LEYECO II, LEYECO III, LEYECO IV, LEYECO V, SOLECO, and BILECO
Region 1+Cordillera Administrative Region+SORECO1 Electric Cooperatives (R1+CAR+S1)	BENECO, INEC, ISECO, KANELCO, LUELCO, MOPRECO, PANELCO I, and SORECO I
PANAY-GUIMARAS EC CONSORTIUM, INC.	AKELCO, ANTECO, CAPELCO, ILECO I, ILECO II, ILECO III and GUIMELCO
NEGROS EC COOPERATION	NORECO I, NORECO II, NOCECO, and NONECO

3.3 Joint Procurement of Material Supplies

Aside from the procurement of power supply, procurement of material supplies for the ECs is the same as those for ECs procuring individually or jointly as long as they are consistent with the guidelines issued by DOE, ERC, and NEA.

Guidelines on this matter are provided on NEA Memorandum No. 2017-019, entitled “Revised Procurement Guidelines and Simplified Bidding Procedures for Electric Cooperatives IRR-RA 10531 (2017)”. On EC procurement planning, all procurement by the EC shall be used on the approved Cash Operating Budget, Supplemental Budget, Enhanced-Integrated Computerized Planning Model (E-ICPM) and Capital Expenditures (CAPEX) which are consolidated into an Annual Procurement Plan (APP). Implementation of projects not included in the APP shall not be allowed.

In line with this, NEA announced that it intends to set up a Regional Procurement Hub Project to streamline the processes related to the purchase of power distribution and equipment facilities. NEA is expected to conduct pilot testing in the Eastern Visayas region for the first regional procurement hub for ECs in the country.

4.0 Review on Ailing Electric Cooperatives

Based on the NEA Compliance Report on the Performance of Electric Cooperative as of 2nd Quarter of 2023, nine (9) ECs are classified as Yellow-2 EC and seven (7) are classified as Red EC, which are mostly located in the Mindanao region.

Table 4 indicates the number of non-compliant Yellow-2 and Red ECs based on NEA's performance standards as of Q2 2023:

Table 4: Summary of Yellow-2 and Red ECs as of Q2 2023³

	Parameters and Standards	No. of ECs	
		Yellow-2 EC	Red EC
1	Cash General Fund	9	3
2	Collection Efficiency	8	7
3	Accounts Payable		
	GenCo	8	6
	NGCP	1	2
	NEA	2	2
	Banks and other Financial Institutions	4	1
4	Result of Financial Operation	6	3
5	Net Worth	5	7
6	System Loss	6	6
7	Power Reliability		
	SAIFI	6	5
	SAIDI	4	3

Table 5: Summary of Yellow-2 and Red ECs

Area	Yellow-2	Red
On-Grid	First Bukidnon Electric Cooperative (FIBECO)	Albay Electric Cooperative (ALECO)
	Zamboanga Del Sur II Electric Cooperative (ZAMSURECO II)	Abra Electric Cooperative (ABRECO)
	Camuigin Electric Cooperative (CAMELCO)	Lanao Del Sur Electric Cooperative (LASURECO)
	South Cotabato II Electric Cooperative (SOCOTECO II)	

³ Source: National Electrification Administration (NEA), [Compliance Report on the Performance of Electric Cooperatives Q2 2023](#) (2023)

Area	Yellow-2	Red
	Maguindanao Electric Cooperative (MAGELCO)	
	Zamboanga City Electric Cooperative (ZAMCELCO)	
Off-Grid	Cagayan de Sulu Electric Cooperative (CASELCO)	Masbate Electric Cooperative (MASELCO)
	Siasi Electric Cooperative (SIASELCO)	Tawi-Tawi Electric Cooperative (TAWELCO)
	Ticao Island Electric Cooperative (TISELCO)	Sulu Electric Cooperative (SULECO)
		Basilan Electric Cooperative (BASELCO)

Based on NEA's assessment of the EC performance, some ECs face numerous issues and challenges that impede the implementation of their plans and programs for the improvement of their operation, potentially leading to organizational decline, such as:

- a. Unstable or adverse peace and order situations
- b. High levels of poverty incidence
- c. Strong political interventions/interference
- d. Cultural and ethnic beliefs
- e. Governance and management issues
- f. Occurrence of natural and man-made calamities
- g. Financial concerns, including overdue power accounts, unrecoverable interest, surcharges, penalties from consumer bills, substantial uncollected power accounts from local government units, military camps, and other government agencies, as well as inappropriate distribution rates, among other issues
- h. Technical challenges such as an aging and deteriorated distribution line system, transformer overloading, and a lack of long-term power supply contracts.

As shown in Table 5, in Mindanao alone, the four (4) ailing ECs which are under the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) were observed to have high incidence of poverty which resulted in the inability of their customers to pay their electricity bills on time. This can also be attributed to high incidence of power pilferages and unreliable distribution system in the said areas.

The seven ailing ECs under RED category have the same performance record since 2016 and consolidation of these ECs was not implemented by NEA or initiated by the ECs.

The NEA has likewise implemented the following interventions to prevent further decline and improve the operational efficiency and standards of service of ailing ECs:

1. Assignment of Acting General Managers and Project Supervisors
2. Organization of Task Force and Management Teams

3. Appointment of NEA representatives to the EC Board of Directors (BODs) and installation of Executive Officer
4. Formulation and issuance of new and relevant policies and guidelines
5. Round Table Assessment and Dialogue
6. Review and approval of Strategic Development Plan (SDP), Sustainability Plan (SP) and Operation Improvement Plan (OIP)
7. Monitoring and evaluation of accomplishment reports versus the approved Plans (SDP, SP, and OIP) to ensure that all projects are properly and efficiently implemented
8. Capacity Building to enhance EC staff in financial, technical, institutional aspects in managing electric distribution utilities
9. Assistance in the Comprehensive Selection Process for New Power Provider
10. Comprehensive audit (regular and special)
11. Annual and Quarterly EC Performance Assessment
12. Service facilities
 - a. Loan and Guarantee Service
 - b. Institutional Strengthening and Technical Assistance

The details of the status and compliance of the seven ailing Electric Cooperative (ECs) as of Q2 2023 are detailed in Annex A of this report.

5.0 TC Assessment and Recommendation

Consolidation of ECs may streamline business processes resulting in the reduction of operational expenses. This may be applicable to cooperatives classified as yellow-2 and red as they have shown financial and technical challenges. However, consolidating these ECs has not been considered due to the peculiar issues and challenges of each EC. Moreover, the consolidation would likewise result in the accumulation of liabilities noting that the new cooperative will be responsible for the liabilities and obligations of each of the consolidating cooperatives.

Hence, the TC opines that the consolidation of ECs may not be the best solution to make the ECs more efficient or financially stable, especially for those ECs who failed to meet the various performance parameters and standards set by NEA.

On the other hand, we commend the efforts of those ECs that proactively work together in sourcing their common requirements. Such practice can also be implemented by other ECs.

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ANNEX A. Status and Compliance of Seven (7) Ailing ECs to Performance Parameters and Standards as of Q2 2023.⁴

A. ON-GRID AREAS

1. ABRECO

	Parameters and Standards	2023		2022	
		Q2	Q1	Q4	Q3
1	Cash General Fund	NC	NC	NC	NC
2	Collection Efficiency	NC	C	NC	NC
3	Accounts Payable				
	GenCo	NC	NC	NC	NC
	NGCP	C	C	C	C
	NEA	C	C	C	C
	Banks and other Financial Institutions	NC	C	NC	NC
4	Result of Financial Operation	C	C	NC	NC
5	Net Worth	NC	NC	NC	NC
6	System Loss	NC	C	NC	NC
7	Power Reliability				
	SAIFI	C	C	C	C
	SAIDI	C	C	C	C

C – Compliant, NC - Non-Compliant

ABRECO failed to meet 5 out of the 7 performance parameters. These include cash general fund, collection efficiency, payment to GENCO and Banks/Other Financial Institutions, Net Worth, and System Loss. Specifically, the cash general fund was insufficient to cover its one-month working capital requirement, and the Net Worth reflected a negative value for the three years. Furthermore, the System Loss percentage remained above the 12% threshold, and collection efficiency fell below 95%. Despite these challenges, there was a positive turnaround in its Financial Operation, transitioning from -Php61.451M to Php16.763M.

2. ALECO

	Parameters and Standards	2023		2022	
		Q2	Q1	Q4	Q3
1	Cash General Fund	NC	NC	NC	NC
2	Collection Efficiency	NC	NC	NC	NC
3	Accounts Payable				
	GenCo	NC	NC	NC	NC
	NGCP	NC	NC	NC	NC
	NEA	NC	NC	NC	NC
	Banks and other Financial Institutions	C	C	C	C

⁴ Source: National Electrification Administration (NEA), [Semi-Annual Report on NEA Initiatives and Activities on Rural Electrification Program \(1st Semester of 2023\)](#)

	Parameters and Standards	2023		2022	
		Q2	Q1	Q4	Q3
4	Result of Financial Operation	NC	C	NC	NC
5	Net Worth	NC	NC	NC	NC
6	System Loss	NC	NC	NC	NC
7	Power Reliability				
	SAIFI	NC	C	NC	NC
	SAIDI	C	C	C	C

C - Compliant, NC - Non-Compliant

Except for the SAIDI Technical Parameters, ALECO did not meet the other requirements in the performance parameters.

ALECO is under a twenty-five (25) year Concession Agreement (CA) with SMC Global Power Holdings, Corp. (SMCGPHC) with its subsidiary Albay Electric Power Company (APEC) since October 2014. However, On 03 September 2022, ALECO conducted a Special General Membership Assembly wherein the MCOs unanimously voted to terminate the twenty-five (25) year Concession Agreement (CA) with SSMCGPHC and its subsidiary APEC, which was subsequently adopted by the ALECO Board of Directors.

The decision to terminate the CA stemmed from the fact that the primary objectives of the agreement, to improve the delivery of services of ALECO, to stop the bleeding of debts of the cooperative, and the rehabilitation of ALECO, was not accomplished.

3. LASURECO

	Parameters and Standards	2023		2022	
		Q2	Q1	Q4	Q3
1	Cash General Fund	NC	NC	NC	NC
2	Collection Efficiency	NC	NC	NC	NC
3	Accounts Payable				
	GenCo	NC	NC	NC	NC
	NGCP	NC	NC	NC	NC
	NEA	NC	NC	NC	NC
	Banks and other Financial Institutions	C	C	C	C
4	Result of Financial Operation	NC	NC	NC	NC
5	Net Worth	NC	NC	NC	NC
6	System Loss	NC	NC	NC	NC
7	Power Reliability				
	SAIFI	NC	NC	NC	NC
	SAIDI	NC	C	NC	NC

C – Compliant, NC - Non-Compliant

LASURECO was unable to comply with any of the 7 performance parameters. To improve operational efficiency, NEA, on 26 January 2023, appointed a Project

Supervisor for LASURECO to oversee the cooperative's management and operations and execute tasks, as directed by NEA.

Regarding the institutional aspect of LASURECO's operations, NEA recognizes the need for workforce re-engineering and has prepared a Proposed Re-organizational Structure. However, implementation is stalled due to insufficient funds, particularly for the retirement pay of eligible employees.

Operationally, LASURECO faces challenges, including high System Loss, low Collection Efficiency, and inadequate funds for essential equipment. Addressing these concerns involves garnering support from political leaders at various levels to ensure compliance with lawful expectations from MCOs and stakeholders, ultimately enhancing the viability of the EC.

B) OFF-GRID AREAS

4. MASELCO

	Parameters and Standards	2023		2022	
		Q2	Q1	Q4	Q3
1	Cash General Fund	C	C	C	C
2	Collection Efficiency	NC	C	C	C
3	Accounts Payable				
	GenCo	NC	NC	NC	NC
	NGCP	C	C	C	C
	NEA	C	C	C	C
	Banks and other Financial Institutions	C	C	C	C
4	Result of Financial Operation	C	C	C	C
5	Net Worth	C	C	C	C
6	System Loss	NC	NC	NC	NC
7	Power Reliability				
	SAIFI	NC	C	C	C
	SAIDI	NC	C	C	C

C – Compliant, NC - Non-Compliant

MASELCO failed to comply with 4 out of 7 performance parameters set by NEA. Non-compliance was observed in collection efficiency, accounts payable to GenCo, System Loss, and Power Reliability. Specifically, the collection efficiency decreased from 95.33% to 94.88% and power reliability exceeded the standard established by the PDC. Furthermore, the system loss percentage remained above the 12% threshold.

5. TAWELCO

	Parameters and Standards	2023		2022	
		Q2	Q1	Q4	Q3
1	Cash General Fund	C	C	C	C
2	Collection Efficiency	NC	NC	NC	NC
3	Accounts Payable				
	GenCo	NC	NC	NC	NC
	NGCP	C	C	C	C
	NEA	C	C	C	C
	Banks and other Financial Institutions	C	C	C	C
4	Result of Financial Operation	C	C	NC	NC
5	Net Worth	NC	NC	NC	NC
6	System Loss	NC	C	NC	NC
7	Power Reliability				
	SAIFI	NC	C	NC	NC
	SAIDI	C	C	NC	NC

C – Compliant, NC - Non-Compliant

TAWELCO was non-compliant with 5 out of 7 performance parameters. These include collection efficiency, payment to GENCO, Net Worth, and System Loss. Specifically, the collection efficiency standard of 95% was not attained with only 36.42% collection performance, and the Net Worth reflected a negative value for the last three years. Despite these challenges, there was a positive turnaround in its Financial Operation, transitioning from -Php38.445M to Php1.424M.

6. SULECO

	Parameters and Standards	2023		2022	
		Q2	Q1	Q4	Q3
1	Cash General Fund	C	C	C	C
2	Collection Efficiency	NC	NC	NC	NC
3	Accounts Payable				
	GenCo	C	C	NC	NC
	NGCP	C	C	C	C
	NEA	C	C	C	C
	Banks and other Financial Institutions	C	C	C	C
4	Result of Financial Operation	C	C	C	C
5	Net Worth	NC	NC	NC	NC
6	System Loss	C	C	C	C
7	Power Reliability				
	SAIFI	C	C	C	C
	SAIDI	C	C	C	C

C - Compliant, NC - Non-Compliant

SULECO was non-compliant with requirements relating to the collection efficiency, which was below the 95% standard at only 42.04%, and the continued presence of a

negative Net Worth over the past three years. On a positive note, there was an improvement in SULECO's accounts payable for the current year.

7. BASELCO

	Parameters and Standards	2023		2022	
		Q2	Q1	Q4	Q3
1	Cash General Fund	C	NC	C	C
2	Collection Efficiency	NC	NC	NC	NC
3	Accounts Payable				
	GenCo	NC	NC	NC	NC
	NGCP	NC	C	C	C
	NEA	NC	C	C	C
	Banks and other Financial Institutions	C	C	C	C
4	Result of Financial Operation	NC	NC	NC	NC
5	Net Worth	NC	NC	NC	NC
6	System Loss	NC	NC	NC	NC
7	Power Reliability				
	SAIFI	NC	NC	NC	NC
	SAIDI	NC	NC	NC	NC

C - Compliant, NC - Non-Compliant

BASELCO was compliant only with Cash General Fund parameters. According to NEA 1st Semi-Annual Report of 2023, the remaining six (6) parameters were not complied by the EC which can be attributed to multiple internal and external factors such as dilapidated electric distribution system, socio-political interventions, governance, threat on safety and security, widespread irregularities, and fraudulent activities among others.