

ACRONYMS

EPIRA
Electric Power Industry Reform Act

IRR
Implementing Rules & Regulations

DOE
Department of Energy

ERC
Energy Regulation Commission

NEA
National Electrification Administration

EC
Electric Cooperative

IMC
Investment Management Contract

LGU
Local Government Unit

CDA
Cooperative Development Authority

MOA
Memorandum of Agreement

LGUGC
LGU Guarantee Corporation



DEPARTMENT OF ENERGY

For more information, please call or visit us at...



DEPARTMENT OF ENERGY
Electric Power Industry Management Bureau
Rural Electrification Administration & Mgt Div.
Energy Center, Fort Bonifacio
Taguig, Metro Manila
Trunklines: 840-1401 to 21 loc. 131



DOE - Consumer Welfare and Promotion Office
Trunklines: 840-140 to 21 loc. 329
Telefax : 840-2267

You may also text your suggestions, queries and complaints. Type **DOE**<space><message> and send to **2920**
E-mail address: cwpo@doe.gov.ph

Please visit our web site : www.doe.gov.ph

Reference : DOE Circular No. DC 2004-06-007
Promoting Investment Management Contracts
June 18, 2004

INVESTMENT MANAGEMENT CONTRACTS

(Pursuant to Section 37 of Republic Act No. 9136
and its Implementing Rules and Regulations)

For detailed information, please refer to:
DOE Circular No. DC 2004-06-007
Promoting Investment Management Contracts.

The Department of Energy (DOE) is implementing, supporting and promoting programs and projects to urge electric cooperatives (ECs) to undertake structural and operational reforms with a view to achieving greater efficiency and lower costs, through collaboration with the private investor-operator/s to gain access to private sector capital and management expertise.

One of the reform option ECs may consider is to collaborate with private sector participants, such as an investor, under Investment Management Contract (IMC). The Investment Management Contract (IMC) is a contractual relationship between a willing EC and a willing investor-operator, for the infusion of risk capital and provision of management expertise by the latter to the former, to provide for sustainable EC recovery based on improved efficiency, lower costs and systems losses reduction.

Other reform options ECs may consider include, but not limited to:

- **Amalgamations, either through a merger, consolidation or regional joint management arrangements; and**
- **Conversion into Stock Cooperatives under Cooperative Development Authority (CDA) or Stock Corporations under the Corporation Code.**

The DOE is to support only IMC transactions concluded through a transparent and

competitive bidding process. The resulting IMC offers the EC an arrangement which is transparent, long-term, competitive, comprehensive, and demonstrates sustainable solution for the efficient operation of the EC.

Features of Investment Management Contract

- The EC remains the duly authorized distribution utility; hence, members of the EC, through the EC Board, shall continue to exercise the rights and responsibilities under its franchise. It shall continue to be regulated by the ERC.
- The EC will continue to function and act through its Board, which shall retain critical residual powers under the IMC, such as, but not limited to:
 - monitoring performance of the investor-operator to ensure compliance with agreed performance standards and deliverables; and
 - working with the investor-operator to approve and implement an investment program consistent with achieving on-going compliance with the Distribution Code
- The EC will retain ownership of and strategic control of its assets, as well as control over setting the standards of service to its customers.
- To ensure that the EC is adequately protected and reasonably assured of sustainable recovery, the investor-operator will only obtain a return on investment and so remunerated where systems loss reduction is achieved and costs are considerably decreased, through an equitable profit-sharing and/or lease option scheme.

Guided Transaction Process

To ensure a transparent and competitive bidding process is undertaken, the DOE has appointed a Transaction Advisor. The Transaction Advisor shall develop a best-practice model IMC, which protects advances and interests of EC and its members.

ECs desirous of exploring the IMC option are strongly encouraged to avail themselves of the services of the Transaction Advisor, duly appointed by the DOE. Interested ECs are thus invited to enter into a MOA with DOE and NEA, which will set the terms for the support that each EC will receive at various stages of the IMC transaction process.

Support for and Regulation of ECs under IMCs

The end-users shall be protected from any rate increase arising from the IMC transaction. On the other hand, the DOE is cognizant of the need for investor-operator to achieve the required returns on their investments once the target EC performance is met and operating surpluses are realized.

Investor-operators need to be protected from the risk that such surpluses are dissipated through regulated rate reductions. Accordingly, the DOE and ERC will consult and petition the ERC for development of a special regulatory regime for ECs under private sector partnerships, under which ECs can opt into a locked-in tariff path. Such tariff will provide certainty both to consumers and potential investor-operators.

The DOE has also appointed the LGUGC to manage a credit guarantee program designed to enhance EC credit worthiness. This program, funded by the Global Environment Facility and the World Bank, aims to provide partial credit guarantees to local Philippine banks for loan to ECs or investor-operators.