ER 1-94 Program, Issuances, and Fund Allocation for MERALCO

September 27, 2019

Presentation Outline

- Origin and evolution of Energy Regulations (E.R.) 1-94
- Salient features of DC2018-08-0021 and 1st Advisory: ER Program Flow
- Salient features of DO2019-01-0001: Allocation, Process, Requirements
- Sample case
- Latest reconciled electrification fund and allocation

ER 1-94 Origin and Evolution Story

1992 **Republic Act No. 7638 Section 5(i)** "Devise ways and means of giving benefits…"

1994 **Energy Regulations No. 1-94**

2001 **Republic Act No. 9136** Section 66 "*Benefits to Host Communities*"
Rule 29 Part (A) of EPIRA IRR "Benefits to Host Communities"

2018 **Department Circular No. DC2018-03-005** "Prescribing Guidelines Recognizing the Rights of Indigenous Cultural Communities(ICCs)/Indigenous Peoples (IPs)…"

Department Circular No. DC2018-08-0021 *"Providing Amendments to Rule 29 Part (A) of the Implementing Rules and Regulations of Republic Act No. 9136"*

2019 **Department Order No. DO2019-01-0001** *"Providing Internal Guidelines and Procedures for the Transfer of Existing Funds in Relation to the Financial Benefits under ER1-94"*

1st Advisory on the Implementation of DC2018-08-0021

Department Circular No. DC2019-06-0010 *"Prescribing Administrative Operating Guidelines for the Availment and Utilization of Financial Benefits by the ICCs/IPs…."*

Salient Features of DC2018-08-0021 Relevant to Distribution Utilities

Allocation

50% Electrification Fund
25% DLF
25% RWMHEEF

(SECTION 6)

Accounts

AGDB trust account for DUs and GenCos

(SECTIONS 8 and 7.5)

Work Plan

Annual Work Program (AWP) preparation by DU in accordance with DDP

(SECTION 10.2)

Utilization Audit

ECs audit by NEA
PIOU audit by COA*
LGUOU audit by COA

(SECTION 11.3.2)

DOE Audit

DOE PCD-FS periodic audit and review of electricity sales, allocations, and remittances

(SECTION 11.1-2)

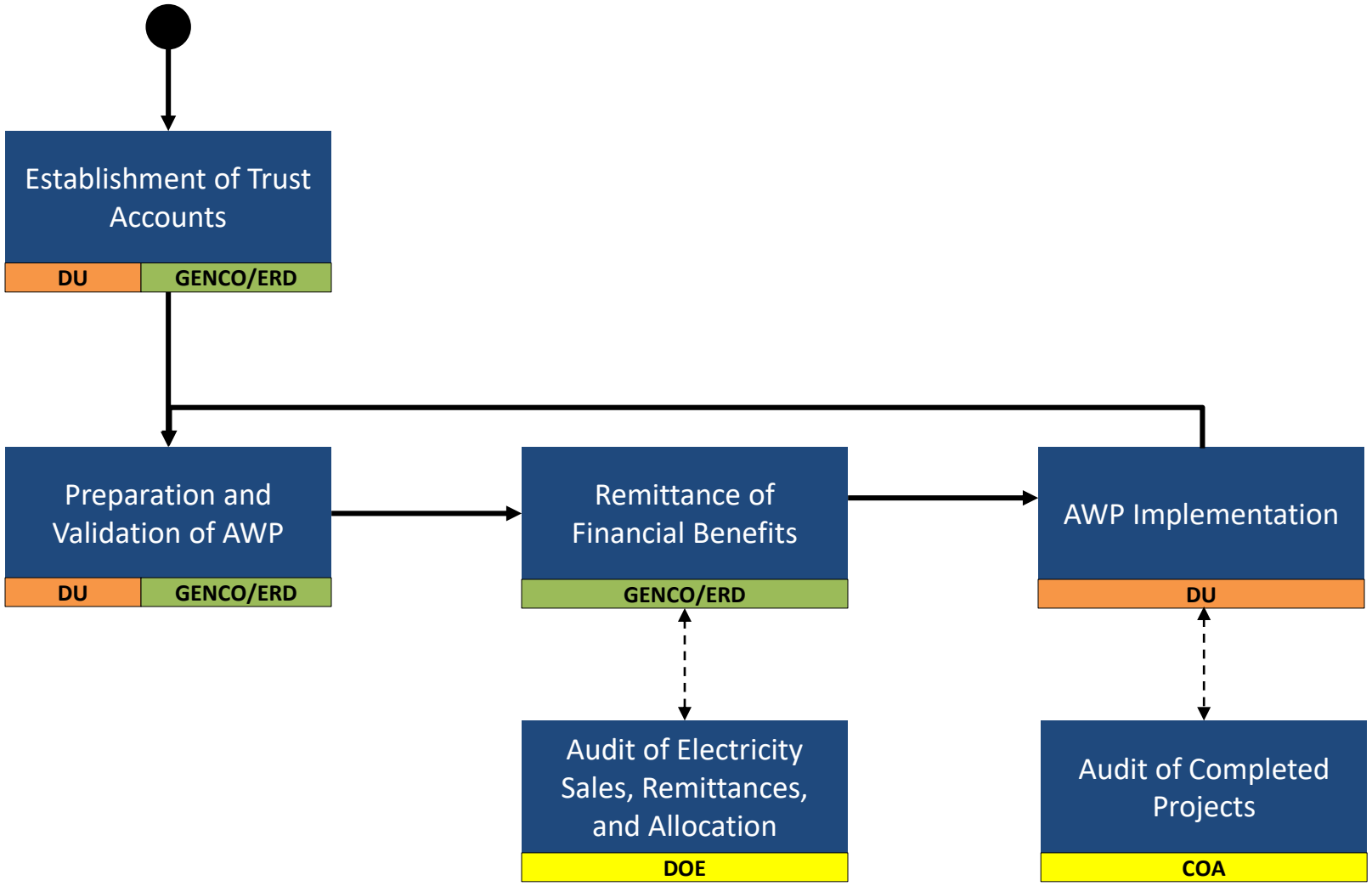
Implementation

DOE to monitor implementation status of validated AWP vis-à-vis utilization of benefits

(SECTION 11.1-2)

**1st Advisory to DC2018-08-0021*

DC2018-08-0021 and 1st Advisory Process Flow for ER1-94



*Procedure consistent with the DC, excludes processes during transition

DC2018-08-0021 and 1st Advisory Process Flow for ER1-94

Establishment of Trust Account | Preparation and Validation of Annual Work Program | Remittance of Financial Benefits | Project Implementation | Audit of Electricity Sales and Projects under AWP

Requirements:

1. ***Memorandum of Agreement (MOA)*** between GenCo and/or ERD and concerned DU
   - Parties
   - Coverage, purpose, and scope of agreement
   - Responsibilities of the parties including the administration of the established accounts
   - Miscellaneous provisions,
   - Effectivity and separability clauses

2. ***"Trust Accounts"*** shall mean the interest-bearing current accounts intended exclusively for ER 1-94 funds with the following format: <**Distribution Utility> - <GenCo and/or ERD> - EF (ER 1-94)**

DC2018-08-0021 and 1st Advisory Process Flow for ER1-94

Establishment of Trust Account | **Preparation and Validation of Annual Work Program** | Remittance of Financial Benefits | Project Implementation | Audit of Electricity Sales and Projects under AWP

- The Annual Work Program (**AWP)** refers to the tangible projects to be implemented within the reference year in accordance with the Distribution Development Plan (**DDP**) *(Section 3.1 of DC2018-08-0021)*

- To be submitted in print and electronic copy to the GenCo and/or ERD not later than **March 15 of every year** *(Section 3.1 of DC2018-08-0021)*

- Validation of AWP shall be limited to the **availability of financial benefits** in accordance to **timelines**, within 30 days of receipt of documentation *(Section 10.4-6 of DC2018-08-0021)*

- **Posting of validated AWP** in websites of GenCo and/or ERD, DOE, Beneficiary, or in two conspicuous places *(Section 10.4-6 of DC2018-08-0021)*

DC2018-08-0021 and 1st Advisory Process Flow for ER1-94

Establishment of Trust Account | **Preparation and Validation of Annual Work Program** | Remittance of Financial Benefits | Project Implementation | Audit of Electricity Sales and Projects under AWP

Eligible projects to be included under AWP (Section 10.3 of DC2018-08-0021)

1. Provision of electric service connection to qualified unserved households through house wiring and/or subsidy
2. Extension of distribution line facilities on unenergized areas/households
3. Alternative electrification solution to unenergized areas where extension of distribution line is not technically or financially feasible , as determined by DU
4. Improvement/rehabilitation/restoration of the distribution system, including adoption of emerging technologies
5. Distribution system and facilities in unserved, underserved, and unviable areas

DC2018-08-0021 and 1st Advisory Process Flow for ER1-94

Establishment of Trust Account | Preparation and Validation of Annual Work Program | **Remittance of Financial Benefits** | Project Implementation | Audit of Electricity Sales and Projects under AWP

- **Quarterly remittance** of benefits from GenCos and/or ERDs to concerned DUs shall be subject to the following:

  1. Submission of AWP
  2. Copy of duly signed liquidation report with any proof that the same has been received by concerned COA

- **Issuance of O.R.** to GenCos and/or ERDs upon receipt of remittance

DC2018-08-0021 and 1st Advisory Process Flow for ER1-94

Establishment of Trust Account | Preparation and Validation of Annual Work Program | Remittance of Financial Benefits | **Project Implementation** | Audit of Electricity Sales and Projects under AWP

- Within 30 days after the end of every year, the GenCos and/or ERDs shall submit to DOE the **implementation status of the tangible projects contained in the validated AWP** vis-a-vis the utilization of the Financial Benefits as reported and submitted by the concerned DU *(Section 11.2 of DC2018-08-0021)*

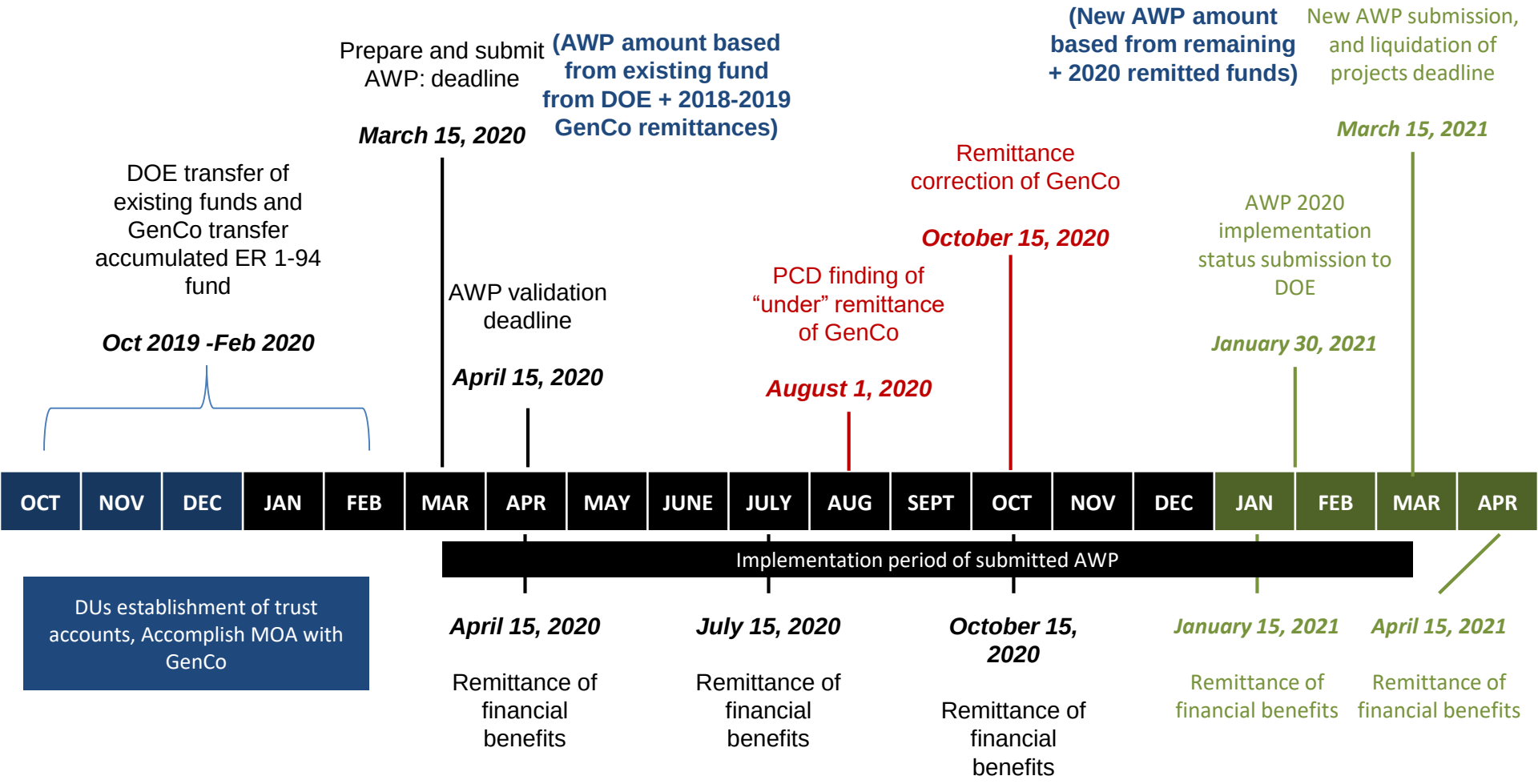
- Copy of the duly **signed Liquidation Report** by the Accountant of the Designated Beneficiaries with any proof that the same has been received by the concerned COA office should be submitted to GenCos and/or ERDs upon completion of project *(2nd Advisory Draft)*

DC2018-08-0021 and 1st Advisory Process Flow for ER1-94

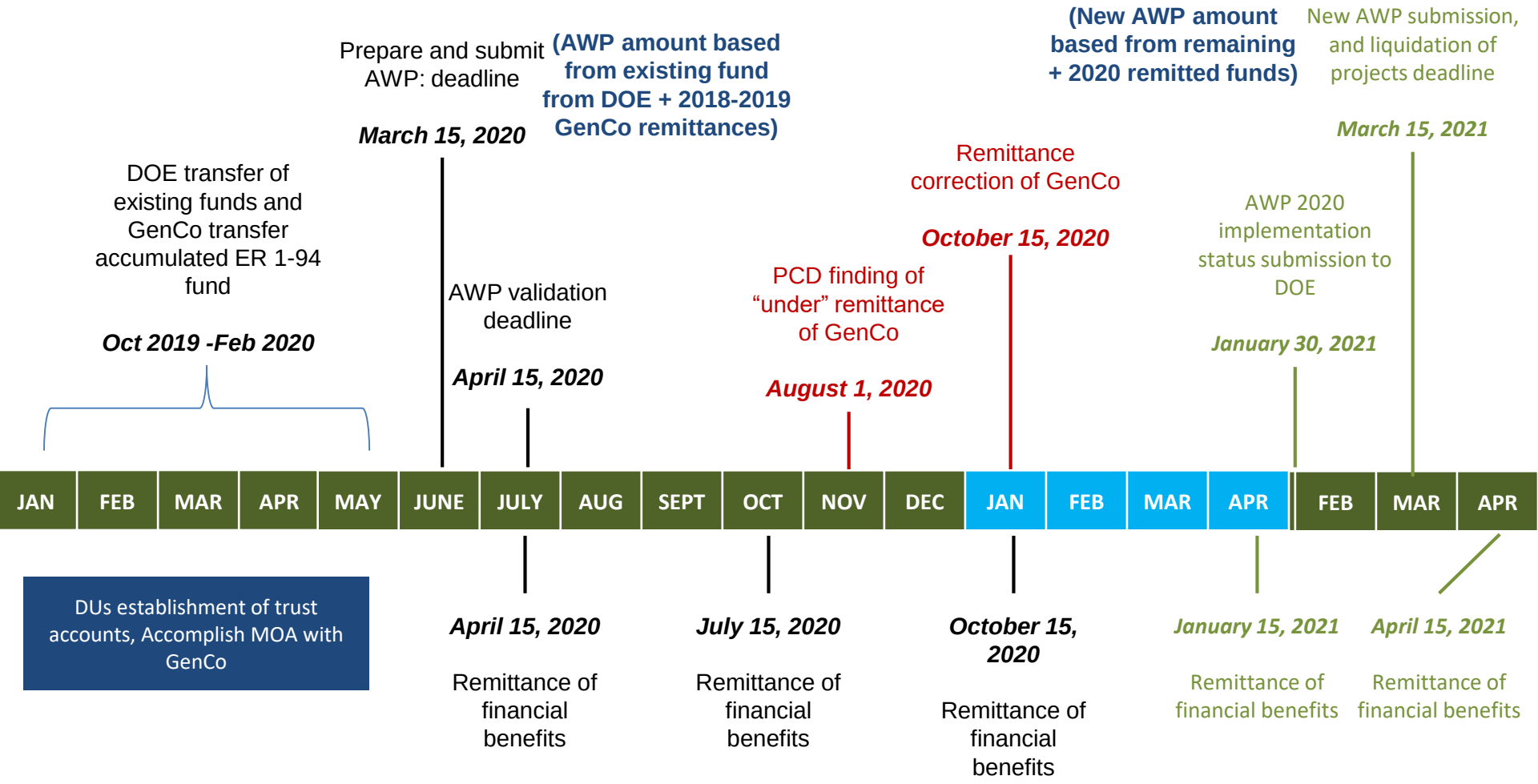
Establishment of Trust Account | Preparation and Validation of Annual Work Program | Remittance of Financial Benefits | Project Implementation | **Audit of Electricity Sales and Projects under AWP**

- For the electrification fund (EF) utilization, the following shall be the **assigned auditors**
  - *Resident COA of NEA for Electric Cooperatives*
  - *COA for the PIOUs and LGUOUs*
- The DOE, through its Power Compliance Division (PCD) – Financial Services (FS) shall conduct **periodic audit and review of reported electricity sales, fund allocation, and remittances** of financial benefits from GenCos and/or ERDs to DUs
- Adjustments on the post-audit shall be reflected and applied in the immediate succeeding remittance

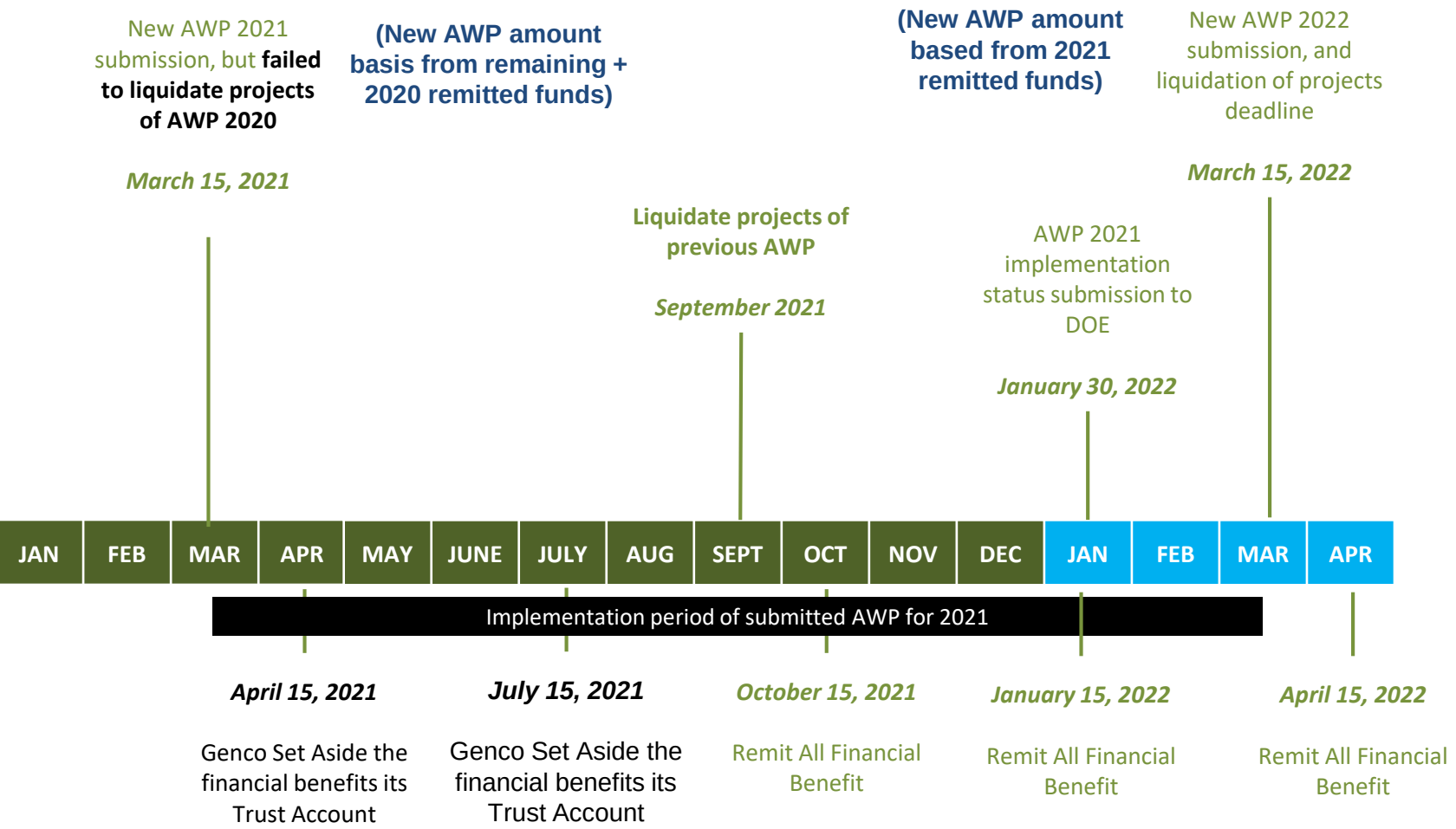
DC2018-08-0021 and 1st Advisory Summary



DC2018-08-0021 and 1st Advisory Summary



DC2018-08-0021 and 1st Advisory Summary

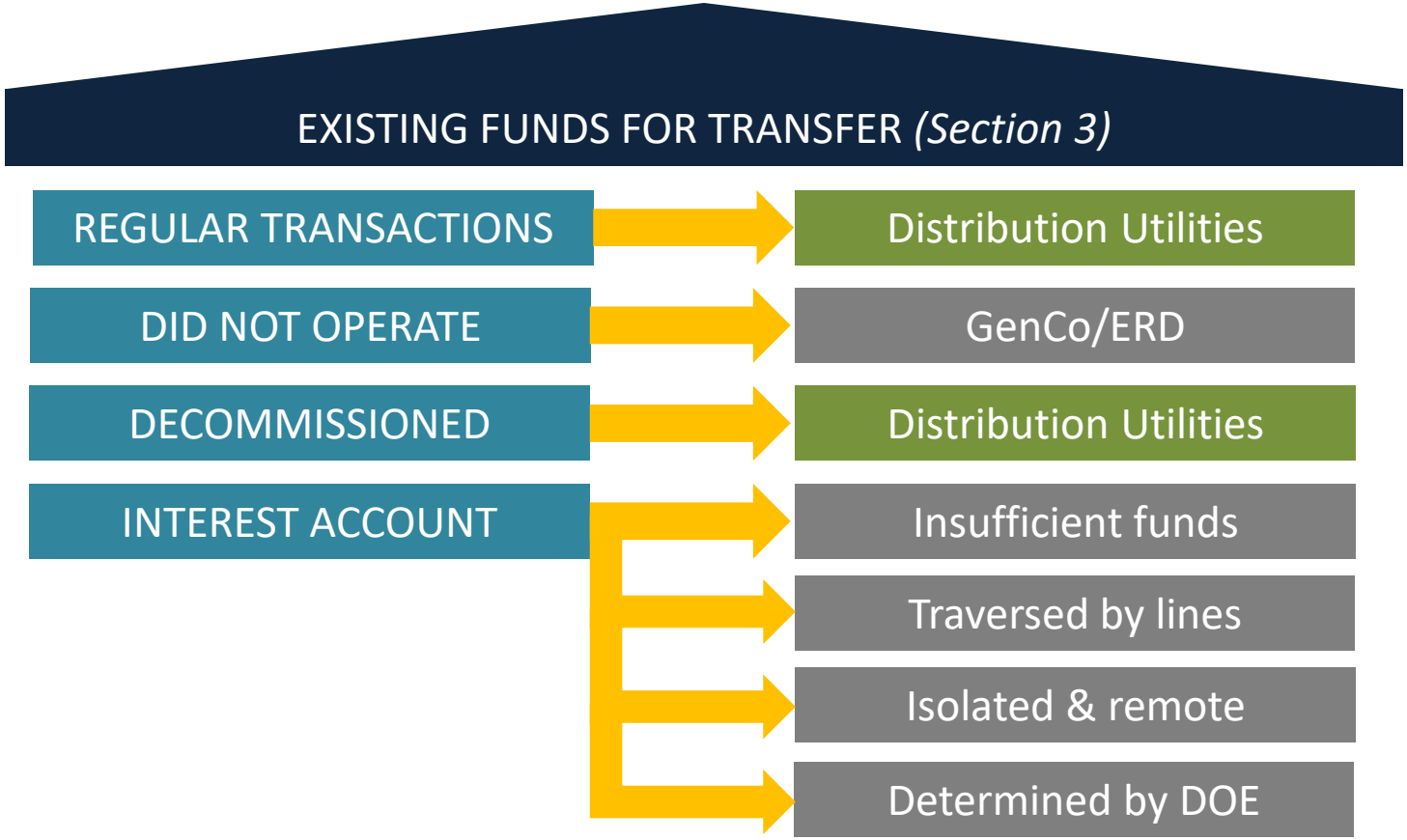


DO2019-01-0001:

Guidelines for the Transfer of Existing Funds Administered by DOE

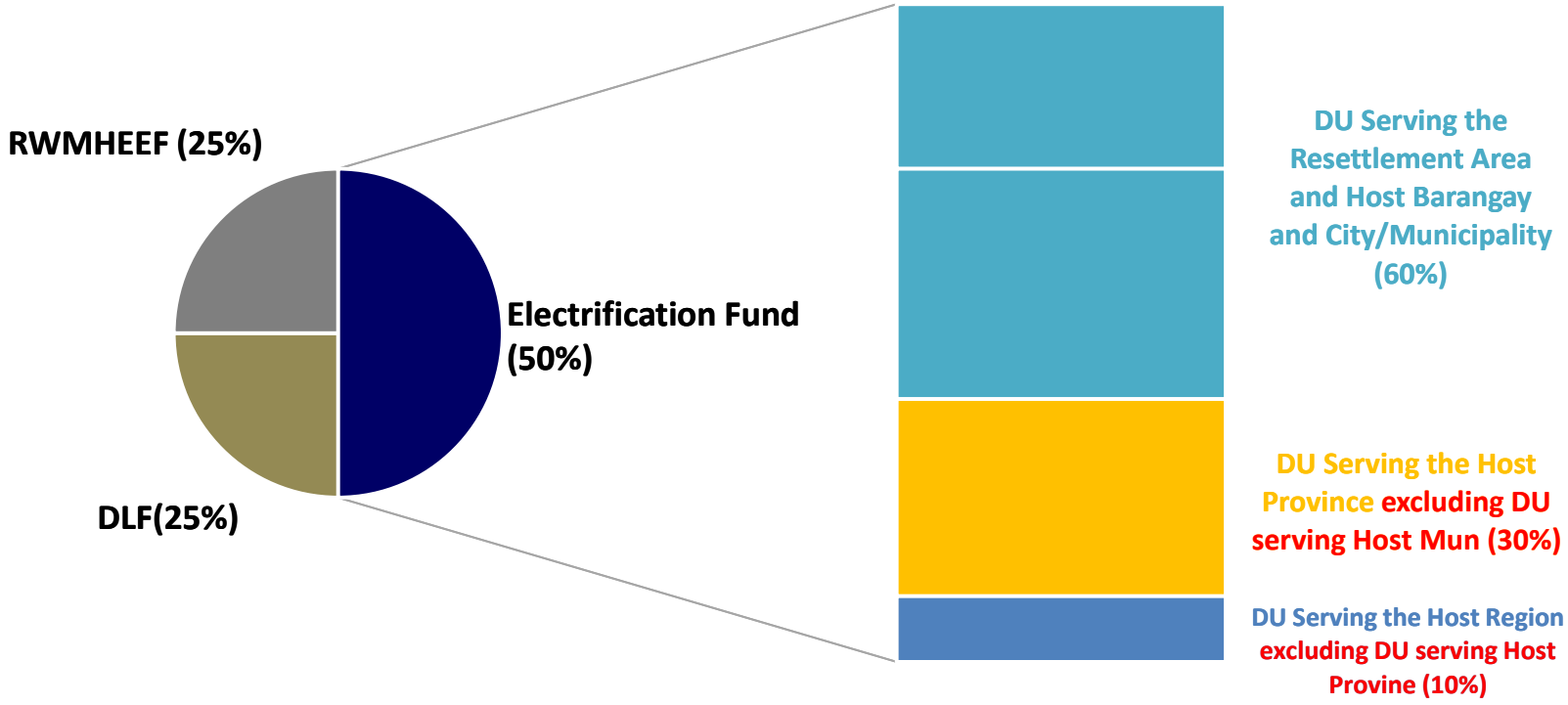
Cash funds • Allocation Method • Requirements • Process

Salient Features of DO2019-01-0001: Transfer of Existing Funds



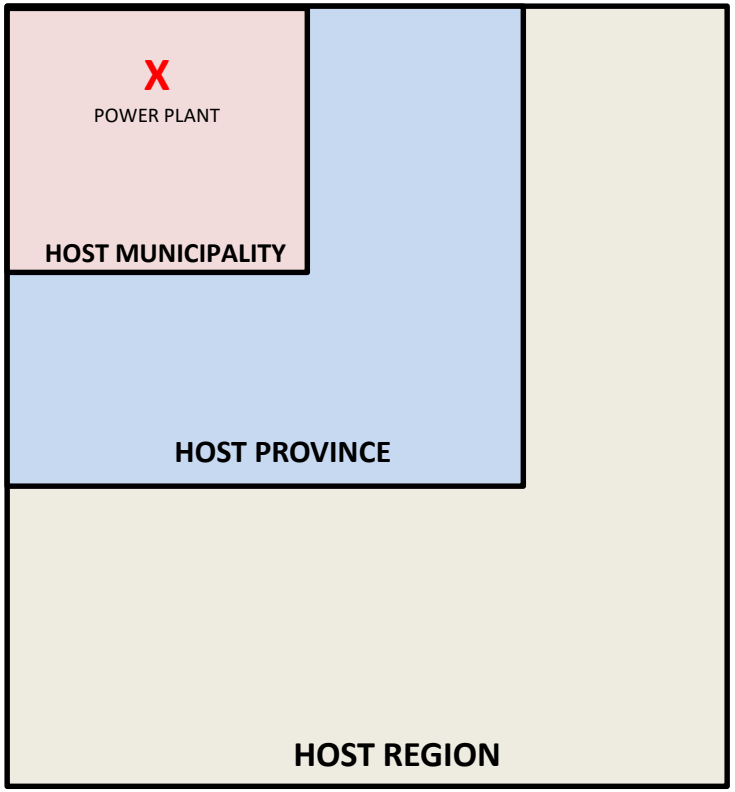
Salient Features of DO2019-01-0001: Allocation Method

"based on the AD's final reconciled list of available cash balances and accounts receivables REAMD shall allocate the funds due to the concerned DUs…." **(Section 4)**



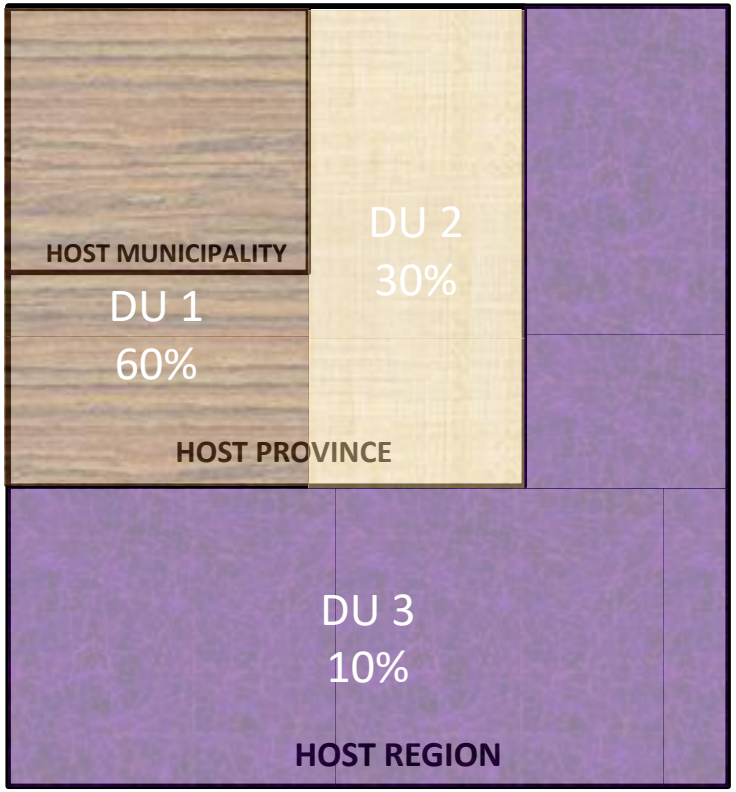
Should there be more than one (1) DU beneficiary, the allocation shall be pro-rated based from the ***Household population (70%)*** *based on 2015 Census and* ***Land Area (30%)*** *covered by concerned DUs.*

Salient Features of DO2019-01-0001: Allocation Method



HYPOTHETICAL REGION
HOSTING ONE POWER PLANT

Salient Features of DO2019-01-0001: Allocation Method



CASE 1:

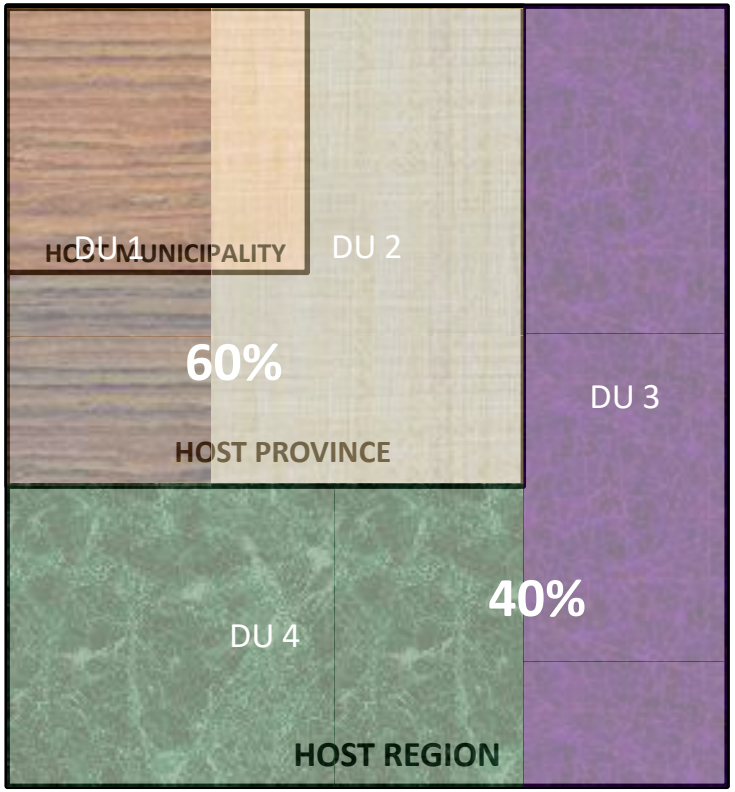
Different DUs serving host municipality, host province, and host region

DU 1 will receive entire **60%** of the fund

DU 2 will receive entire **30%** of the fund

DU 3 will receive entire **10%** of the fund

Salient Features of DO2019-01-0001: Allocation Method



CASE 2:

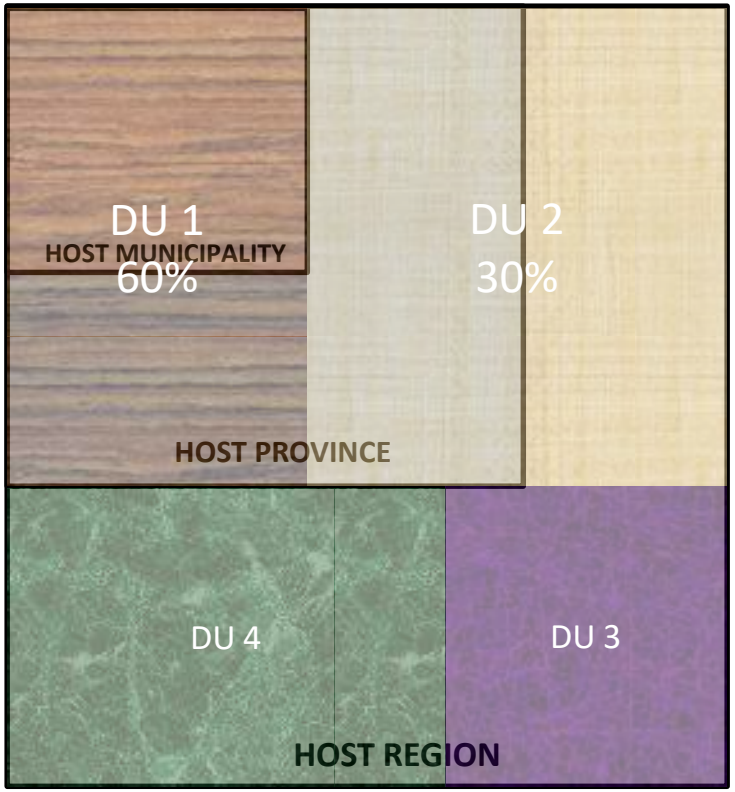
Exact same set of DUs serve the host municipality and host province.

DU 1 and **DU 2** will share the **60%** of the fund

DU 3 and **DU 4** will share the (**30%** + **10%**) of the fund

Allocation still pro-rated on the basis of household population and area

Salient Features of DO2019-01-0001: Allocation Method



CASE 3:

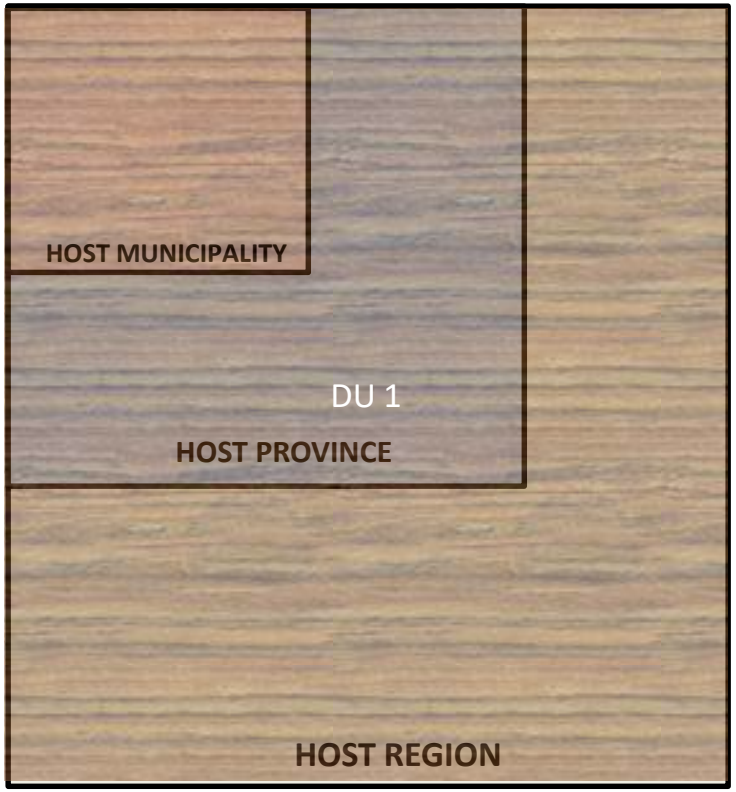
DU 1 will receive entire **60%**

DU 2 will receive entire **30%**

DU 3 and **DU 4** will share the remaining **10%**

For DU 3 and DU 4, allocation still pro-rated on the basis of household population and area

Salient Features of DO2019-01-0001: Allocation Method

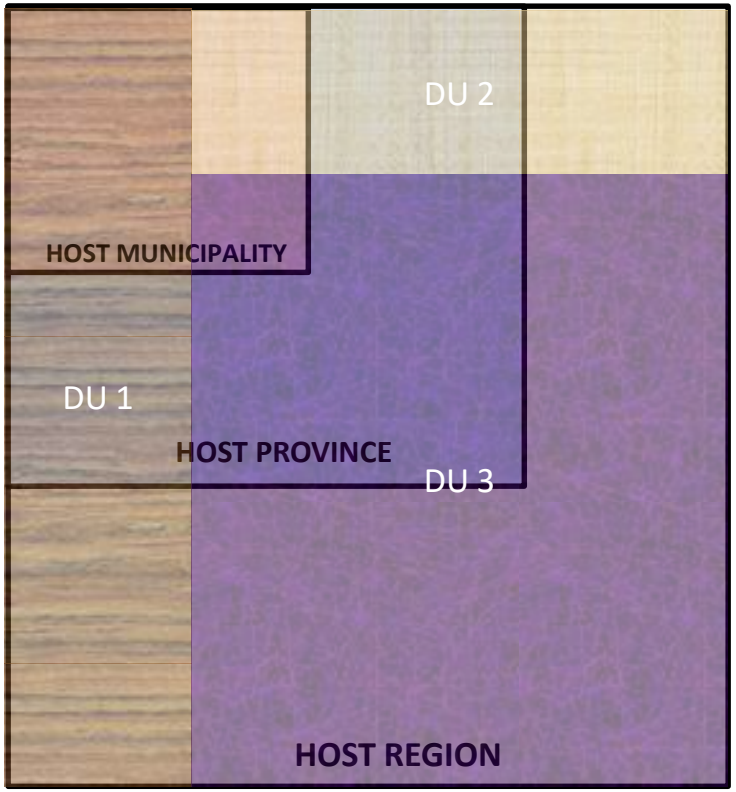


EXTREME CASE 1:

Only one DU serving the entire host region

Sole DU will receive **100%** of the fund

Salient Features of DO2019-01-0001: Allocation Method



EXTREME CASE 2:

Exact same set of DUs serve the host municipality, host province, and host region

Set of DUs will share **100%** based on their household population and land area

Allocation still pro-rated on the basis of household population and area

Salient Features of DO2019-01-0001: Allocation Method

What is the effect of the "70% household population" and "30% land area"?

For this case, **DU 1** and **DU 2** will share the 60% of the fund.

	Household population	Land area
DU 1	1,000	60
DU 2	500	100
TOTAL	1,500	160

$$\boldsymbol{DU\ 1}(\%) = 70\%\frac{1{,}000}{1{,}500} + 30\%\frac{60}{160} = \mathbf{57.92}\%$$

$$\boldsymbol{DU\ 2}(\%) = 70\%\frac{500}{1{,}500} + 30\%\frac{100}{160} = \mathbf{42.08}\%$$

DU 1 will get 57.92% of 60% which is **34.75%**

DU 2 will get 42.08% of 60% which is **25.25%**

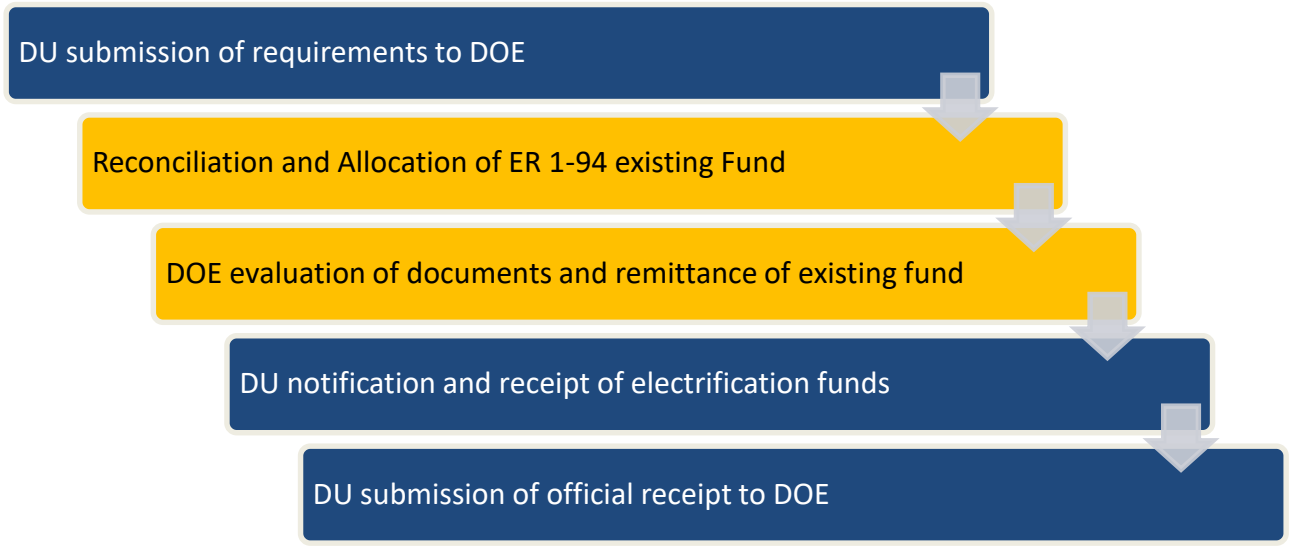
Salient Features of DO2019-01-0001: Process and Requirements

Requirements for DUs to avail of **EXISTING FUNDS** administered by DOE **(*Section 7*)**

1. Establishment of trust account *"DU-GenCo/ERD-EF (ER1-94)"*
2. Certification from any AGDB of established account
3. Authorized representative certification
4. No unliquidated project funds
   - Failure to comply within prescribed period within the MOA, even after extension, will result to transfer of all existing funds due to concerned DU to the National Treasury

"First come first serve basis for processing of transfer of funds" ***(Section 9)***

Process flow for the availment of **EXISTING FUNDS** from DOE **(Section 8)**



SAMPLE CASE 1:

MERALCO transfer of existing fund from MakBan Geothermal Power Plant and new ER1-94 program setup

Transfer of Funds from MakBan Geothermal Power Plant to MERALCO

STEP 1: Establish trust account in AGDB named "*MERALCO-MakBan GPP -EF- (ER1-94)"*

STEP 2: Submission of bank certificate and authority to sign. Make sure no pending liquidation of projects with DOE.

STEP 3: DOE allocation and remittance of financial benefits to MERALCO

STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Makban Geothermal Power Plant

Aboitiz Power Renewables, Inc.

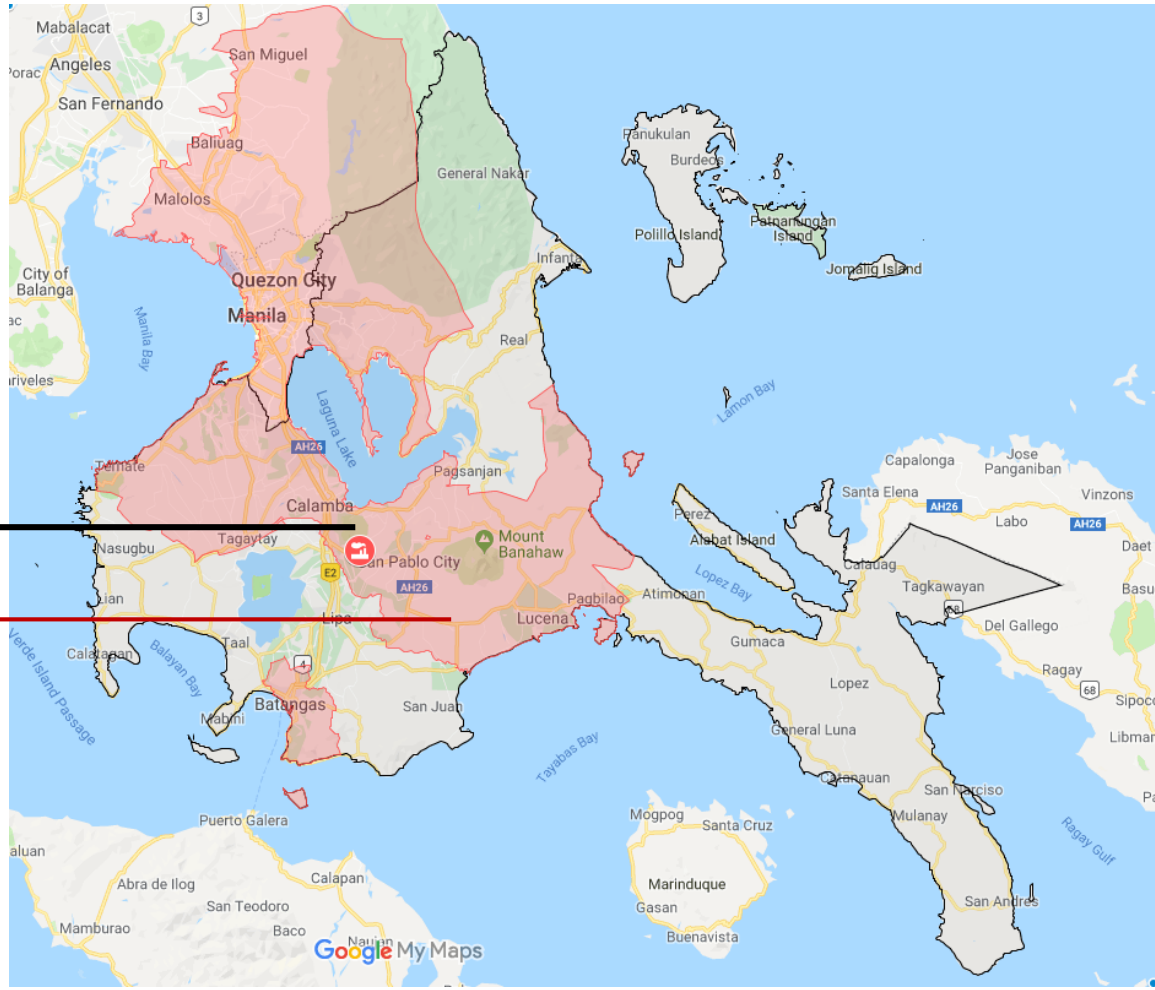
HOST MUNICIPALITIES: Calauan, Bay, and Sto. Tomas
HOST PROVINCES: Laguna and Batangas
HOST REGION: IV-A
Electrification Fund Amount: ₱64,265,011.71

STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Host Municipalities

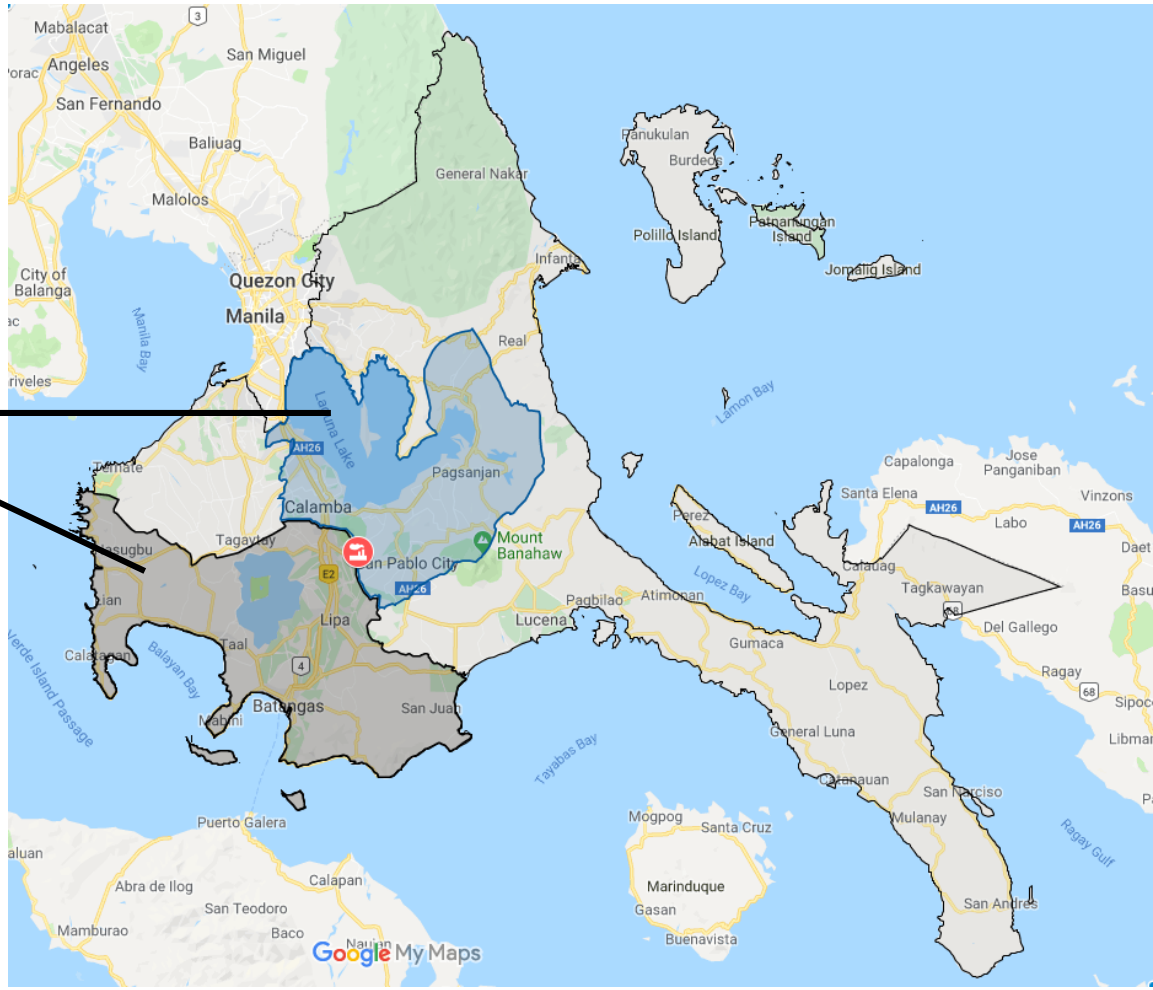
MERALCO

Serves all host municipalities
60% of the Electrification Fund
₱38,559,007.03



STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Host Provinces

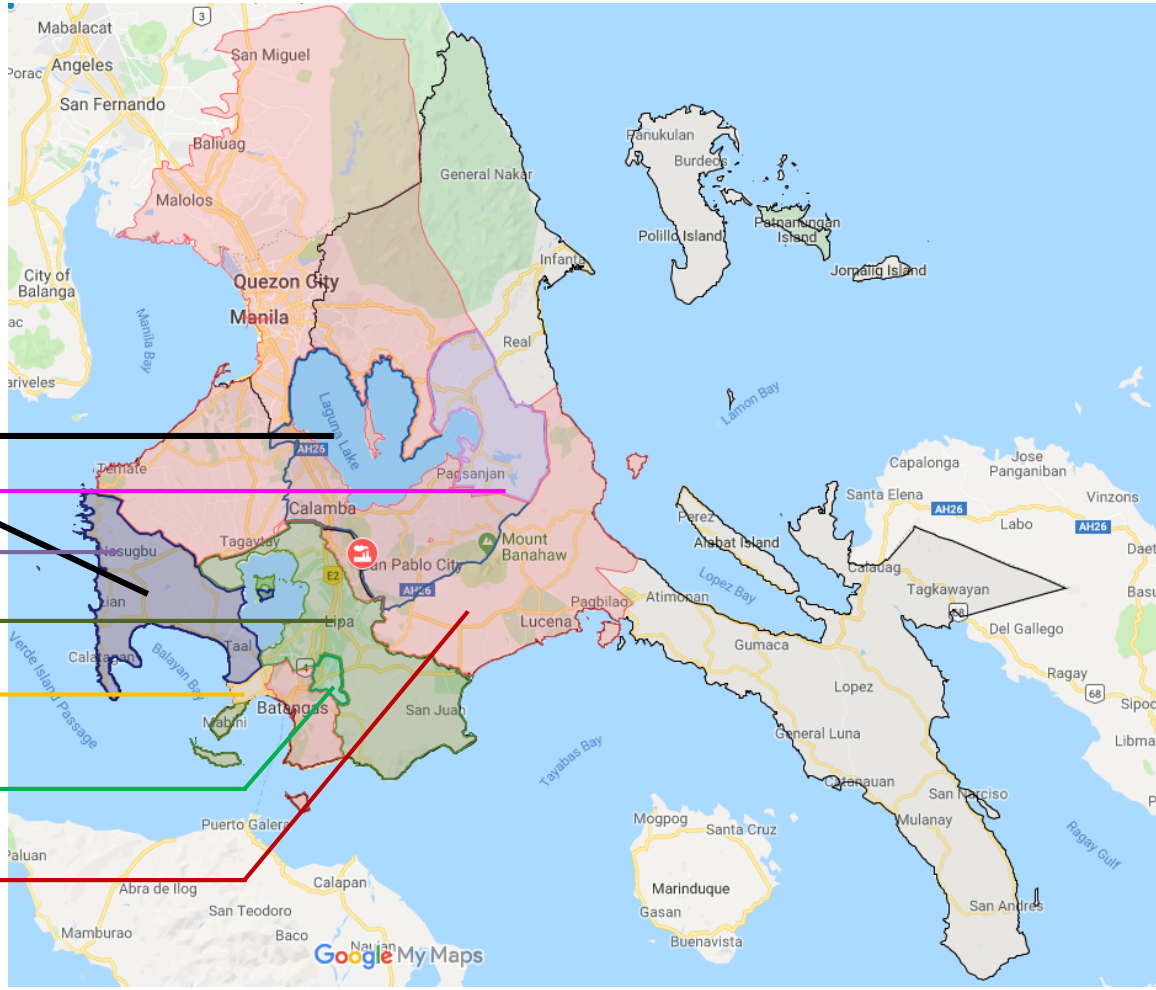


STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Host Provinces

- **FLECO**
- **BATELEC I**
- **BATELEC II**
- **FBPC**
- **IEEC**
- **MERALCO**

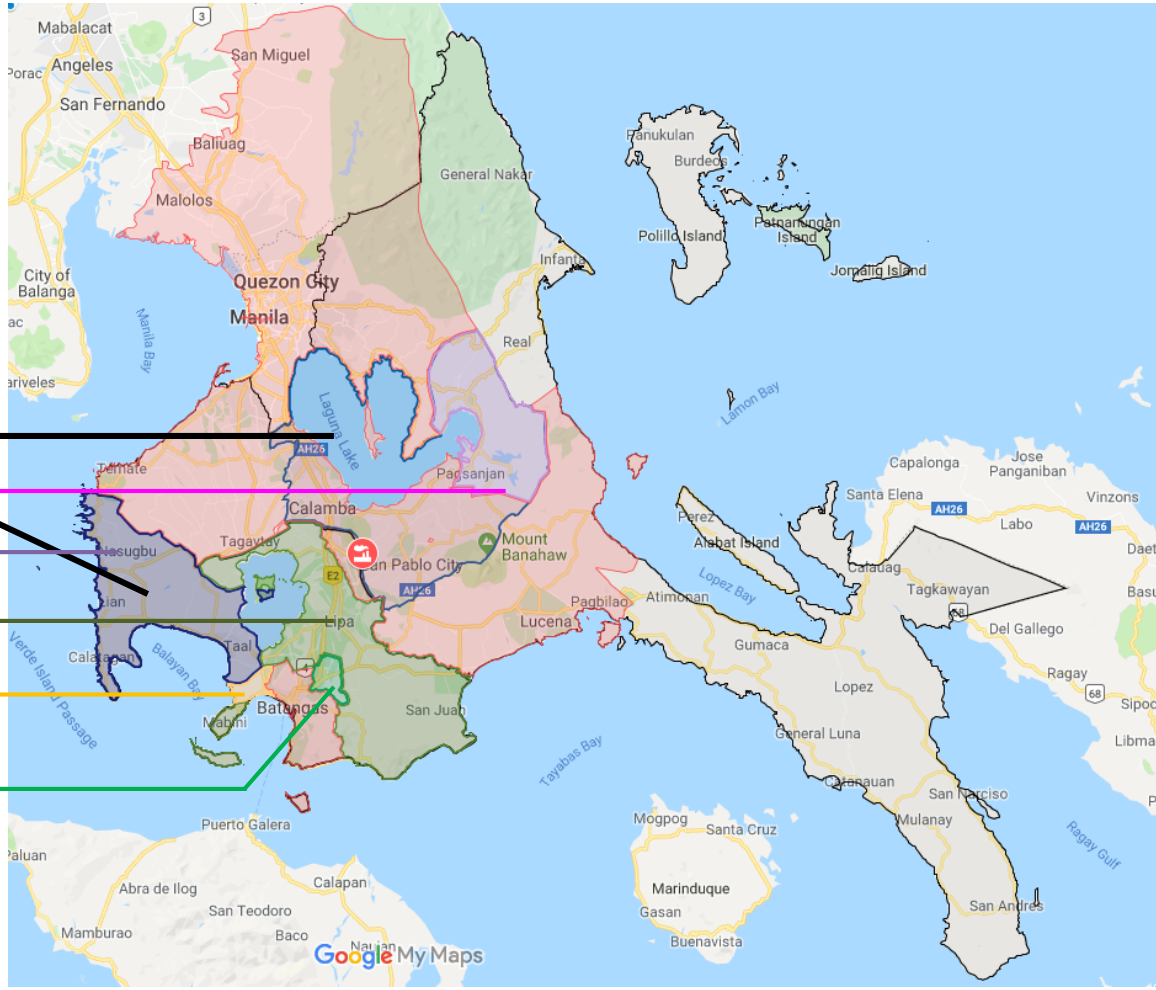
Already recipient of 60%



STEP 3: DOE allocation and remittance of financial benefits to MERALCO

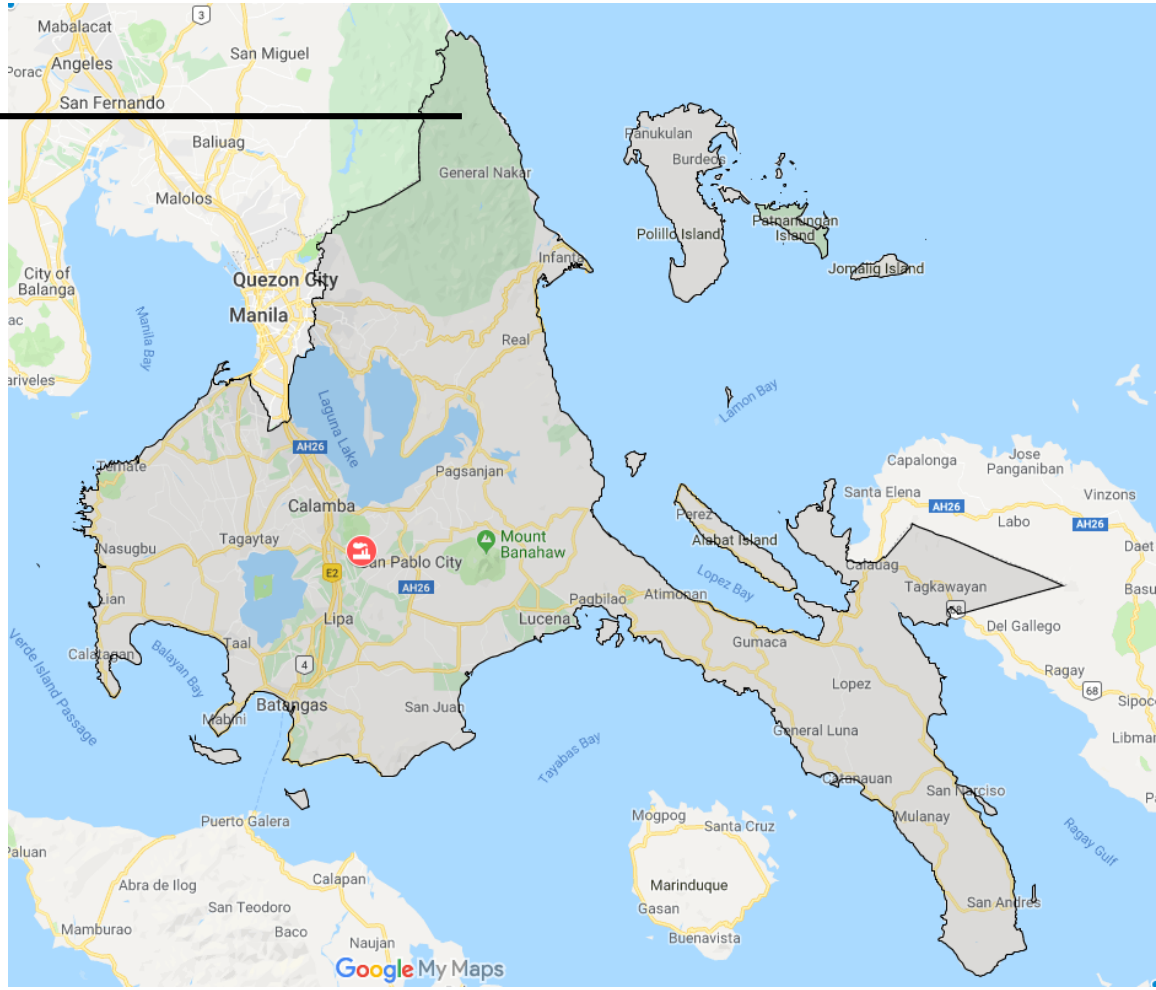
Host Provinces

- FLECO ₱2,963,457.58
- BATELEC I ₱5,816,050.89
- BATELEC II ₱9,451,379.60
- FBPC ₱600,797.30
- IEEC ₱447,818.15



STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Host Region



STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Host Region

QUEZELCO II

MERALCO Already recipient of 60%

FLECO Already recipient from 30%

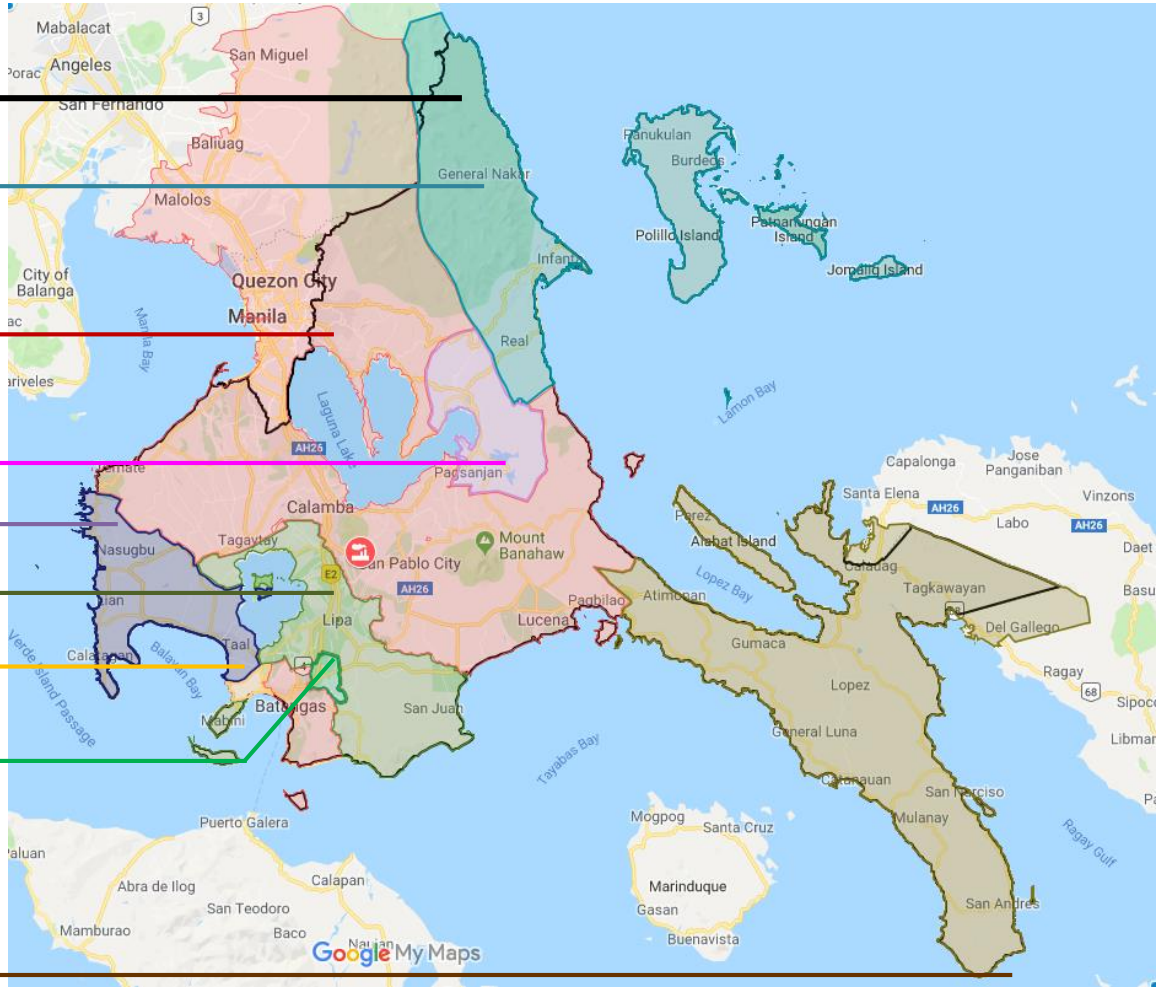
BATELEC I Already recipient from 30%

BATELEC II Already recipient from 30%

FBPC Already recipient from 30%

IEEC Already recipient from 30%

QUEZELCO I

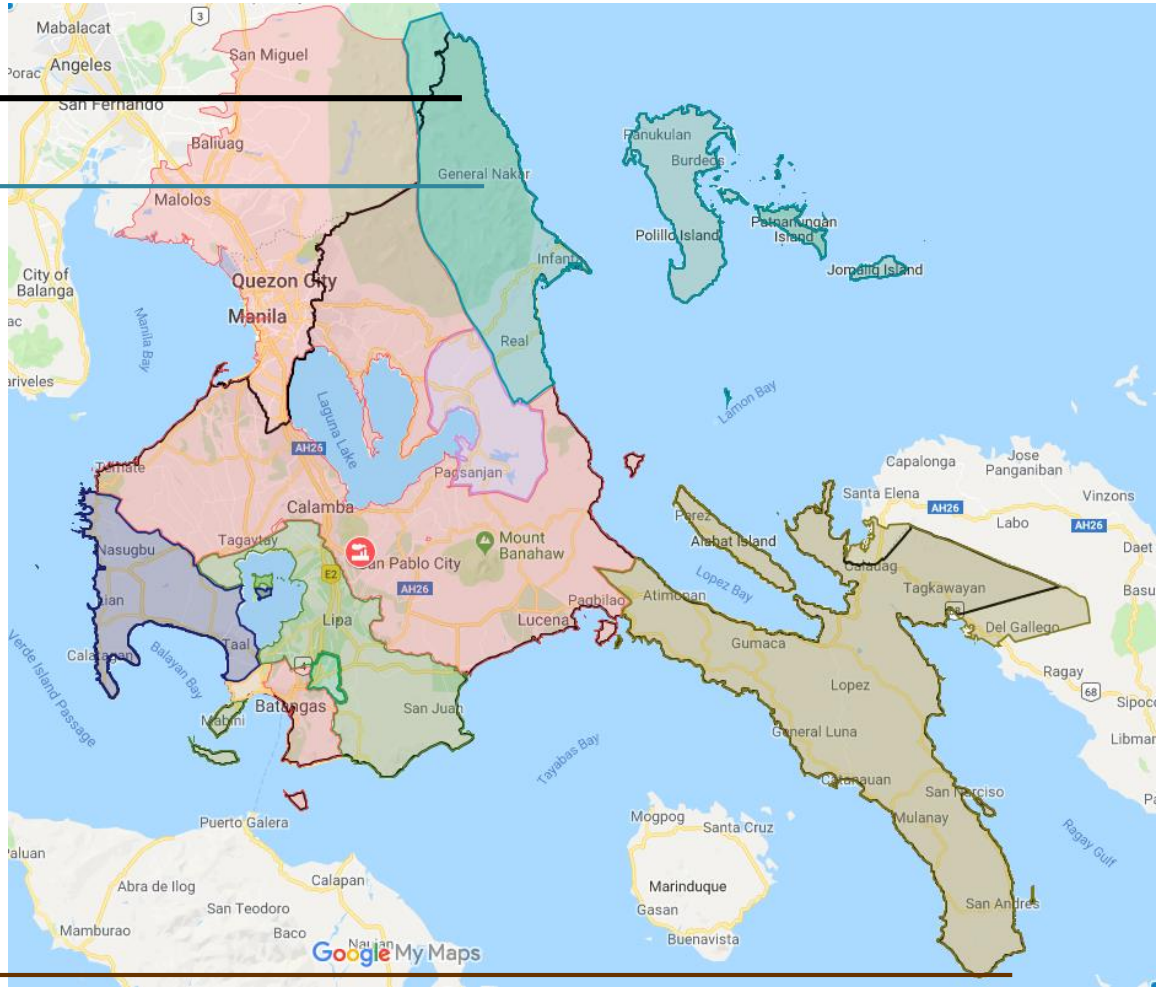


STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Host Region

QUEZELCO II ₱1,740,478.37

QUEZELCO I ₱4,686,022.80



Example No. 1: Transfer of Funds from Makban to MERALCO

Distribution Utility	Serves host municipalities?	Serves host province?	Serves host region?	% Share	Amount Share
MERALCO	**Yes**	**Yes**	**Yes**	**60.00%**	**₱38,559,007.03**
BATELEC I		Yes	Yes	9.05%	₱5,816,050.89
BATELEC II		Yes	Yes	14.71%	₱9,451,379.60
FBPC (BELS)		Yes	Yes	0.93%	₱600,797.30
FLECO		Yes	Yes	4.61%	₱2,963,457.58
IEEC		Yes	Yes	0.70%	₱447,818.15
QUEZELCO I			Yes	7.29%	₱4,686,022.80
QUEZELCO II			Yes	2.71%	₱1,740,478.37

Transfer of Funds from MakBan Geothermal Power Plant to MERALCO

STEP 1: Establish trust account in AGDB named "*MERALCO-MakBan GPP -EF- (ER1-94)*"

STEP 2: Submission of bank certificate and authority to sign. Make sure no pending liquidation of projects with DOE.

STEP 3: DOE allocation and remittance of financial benefits to MERALCO

PHP ₱38,559,007.03 shall be transferred to MERALCO trust account

STEP 4: Submission of official receipt (O.R.) to DOE

REPEAT STEPS 1 to 4 TO ALL OTHER POWER PLANTS !!!

SAMPLE CASE 2:

MERALCO transfer of existing fund from Sem Calaca Coal-Fired Power Plant and new ER1-94 program setup

Transfer of Funds from Sem Calaca Coal Power Plant to MERALCO

STEP 1: Establish trust account in AGDB named "*MERALCO-Sem Calaca -EF- (ER1-94)*"

STEP 2: Submission of bank certificate and authority to sign. Make sure no pending liquidation of projects also

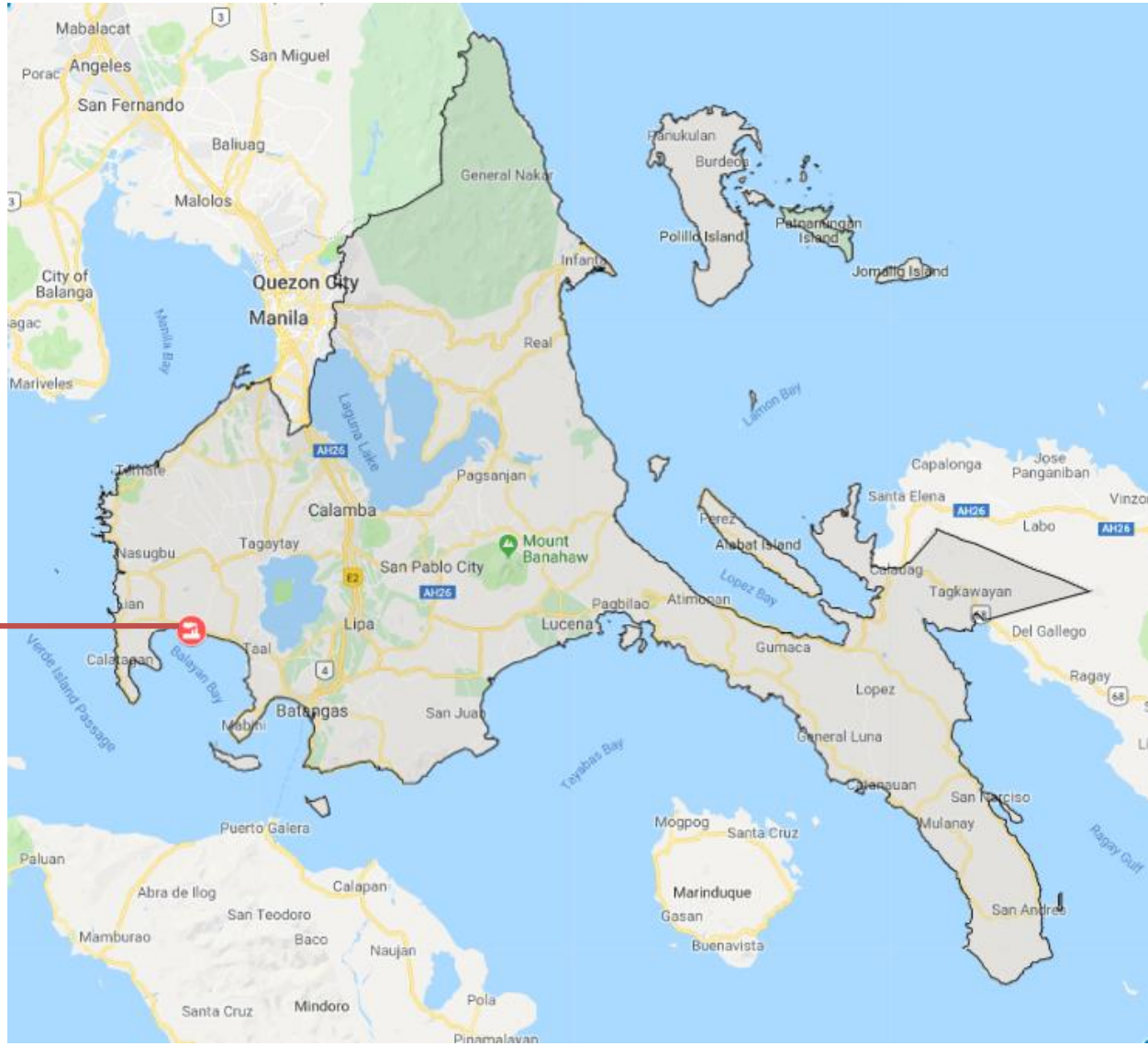
STEP 3: DOE allocation and remittance of financial benefits to MERALCO

STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Coal-fired Power Plant

Sem Calaca Power Corporation

HOST MUNICIPALITIES: Balayan and Calaca
HOST PROVINCE: Batangas
HOST REGION: IV-A
Electrification Fund Amount: ₱102,654,098.41

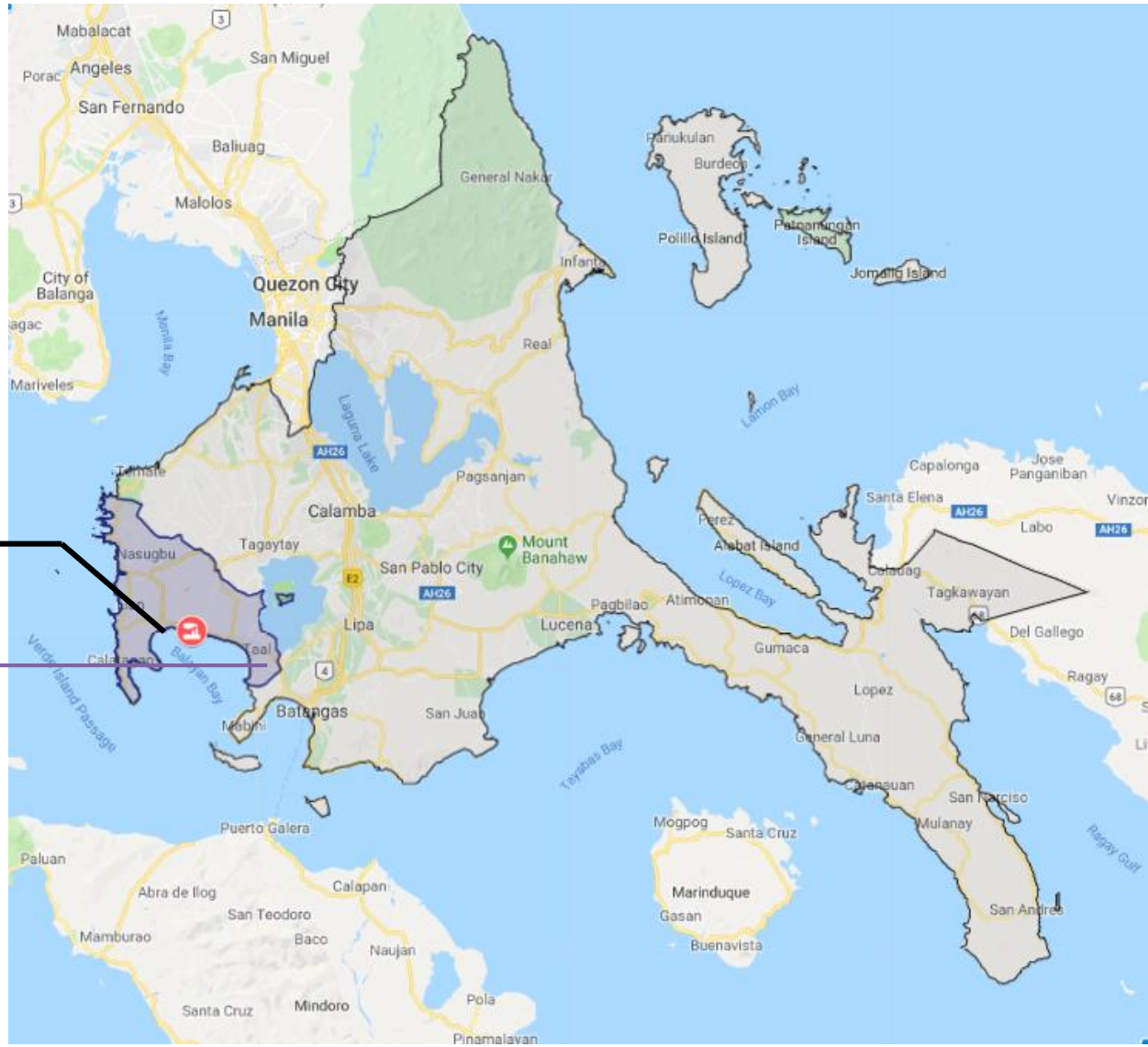


STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Host Municipality
Balayan and Calaca

BATELEC I

60% of the Electrification Fund
₱61,592,459.05



STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Host Province
Batangas

STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Host Province
Batangas

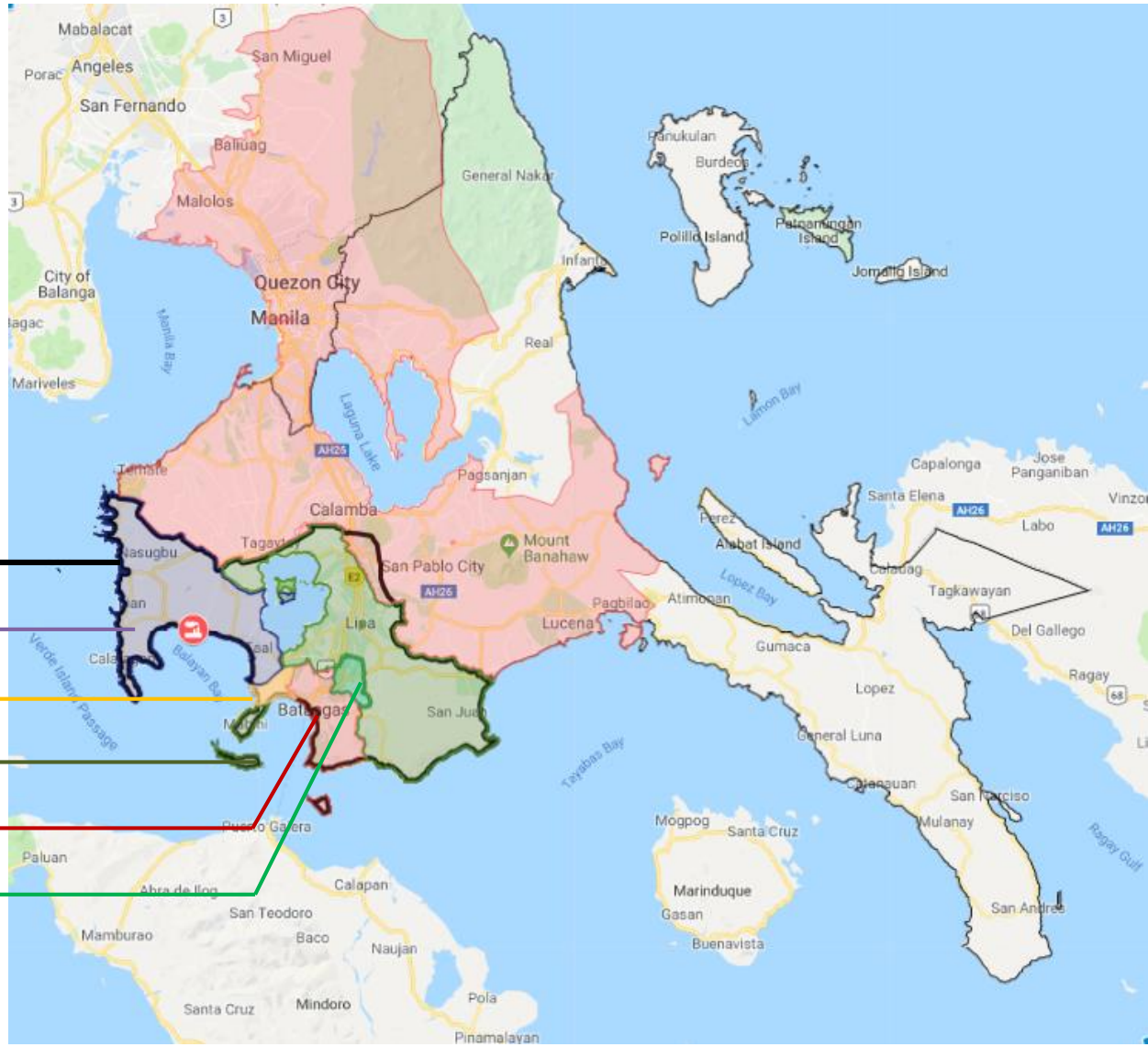
BATELEC I Already received 60%

FBPC

BATELEC II

MERALCO

IEEC



STEP 3: DOE allocation and remittance of financial benefits to MERALCO

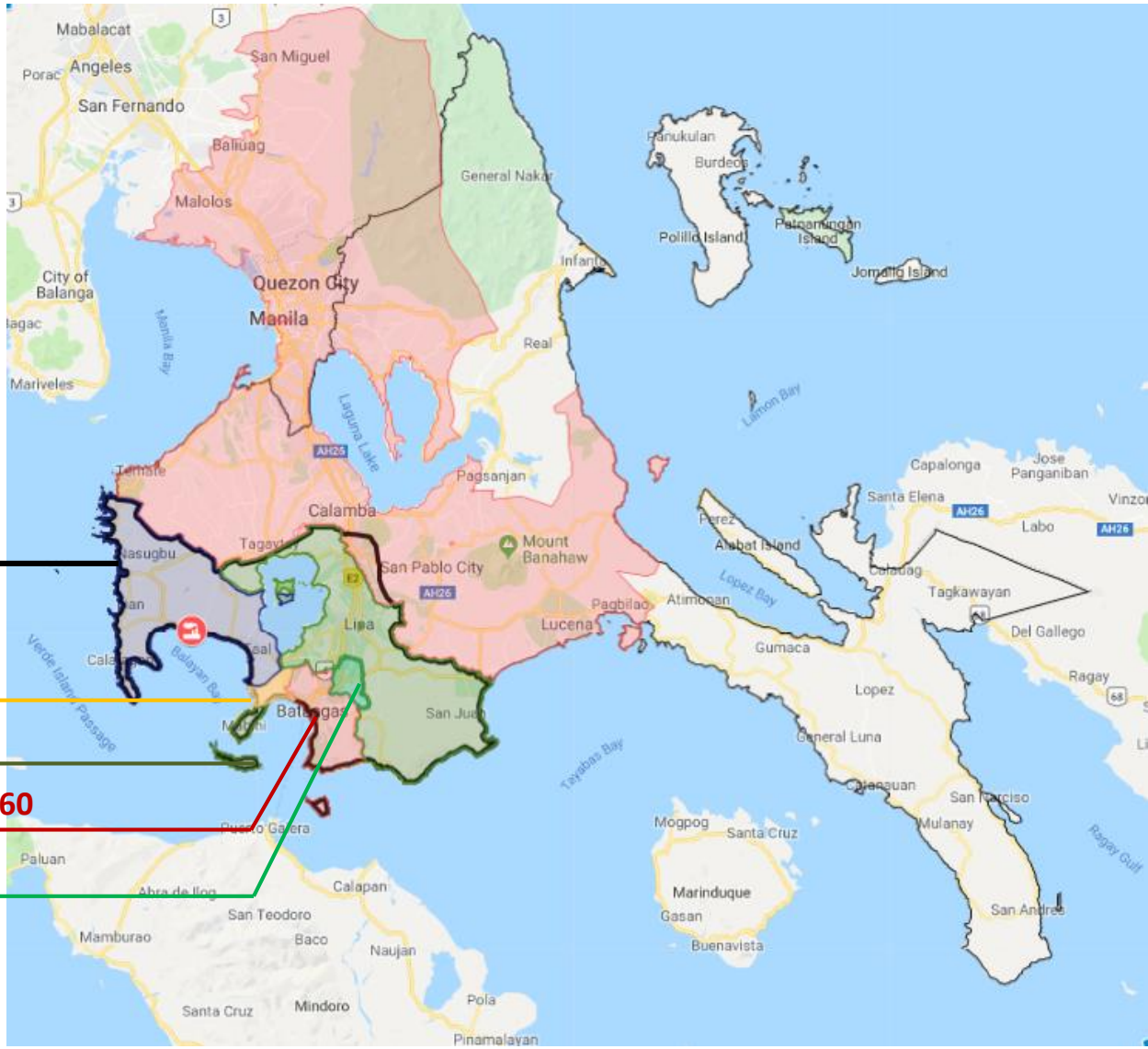
Host Province
Batangas

FBPC (0.21%) ₱215,545.82

BATELEC II (3.75%) ₱3,848,259.59

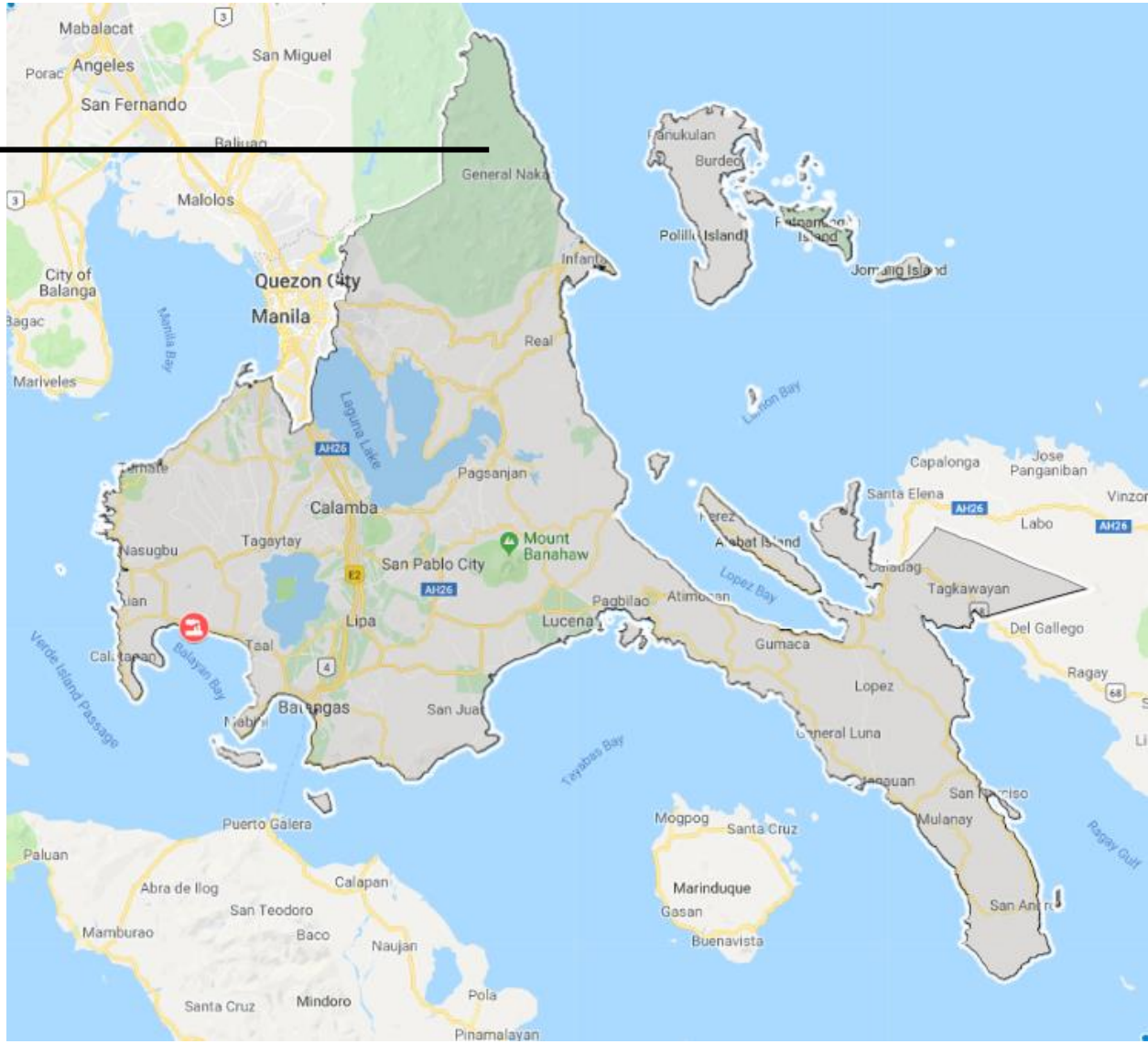
MERALCO (25.86%) ₱26,548,946.60

IEEC (0.18%) ₱183,477.51



STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Host Region
Batangas



STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Host Region
Batangas

QUEZELCO II

FLECO

BATELEC I Already received 60%

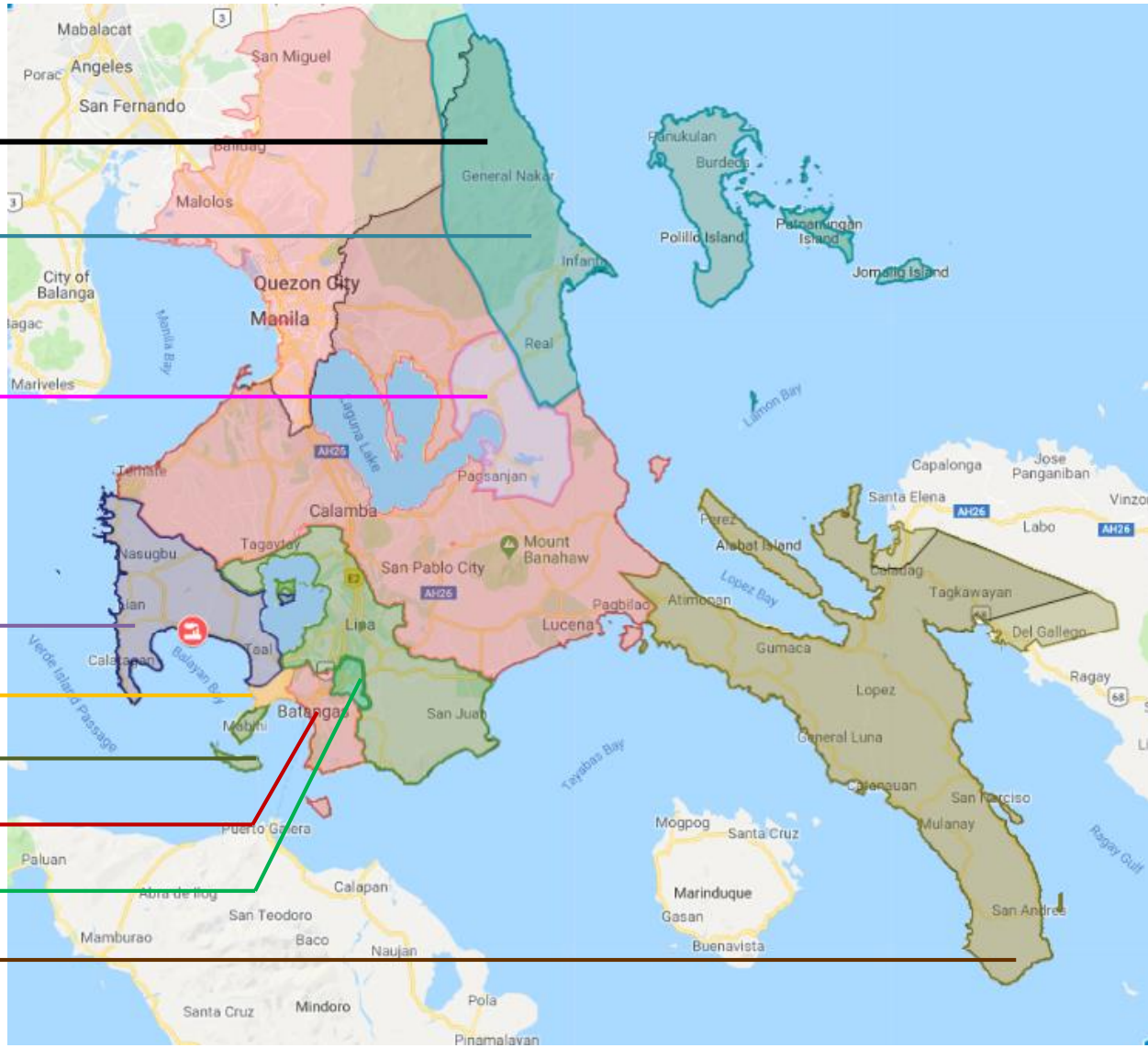
FBPC Already received from 30%

BATELEC II Already received from 30%

MERALCO Already received from 30%

IEEC Already received from 30%

QUEZELCO I



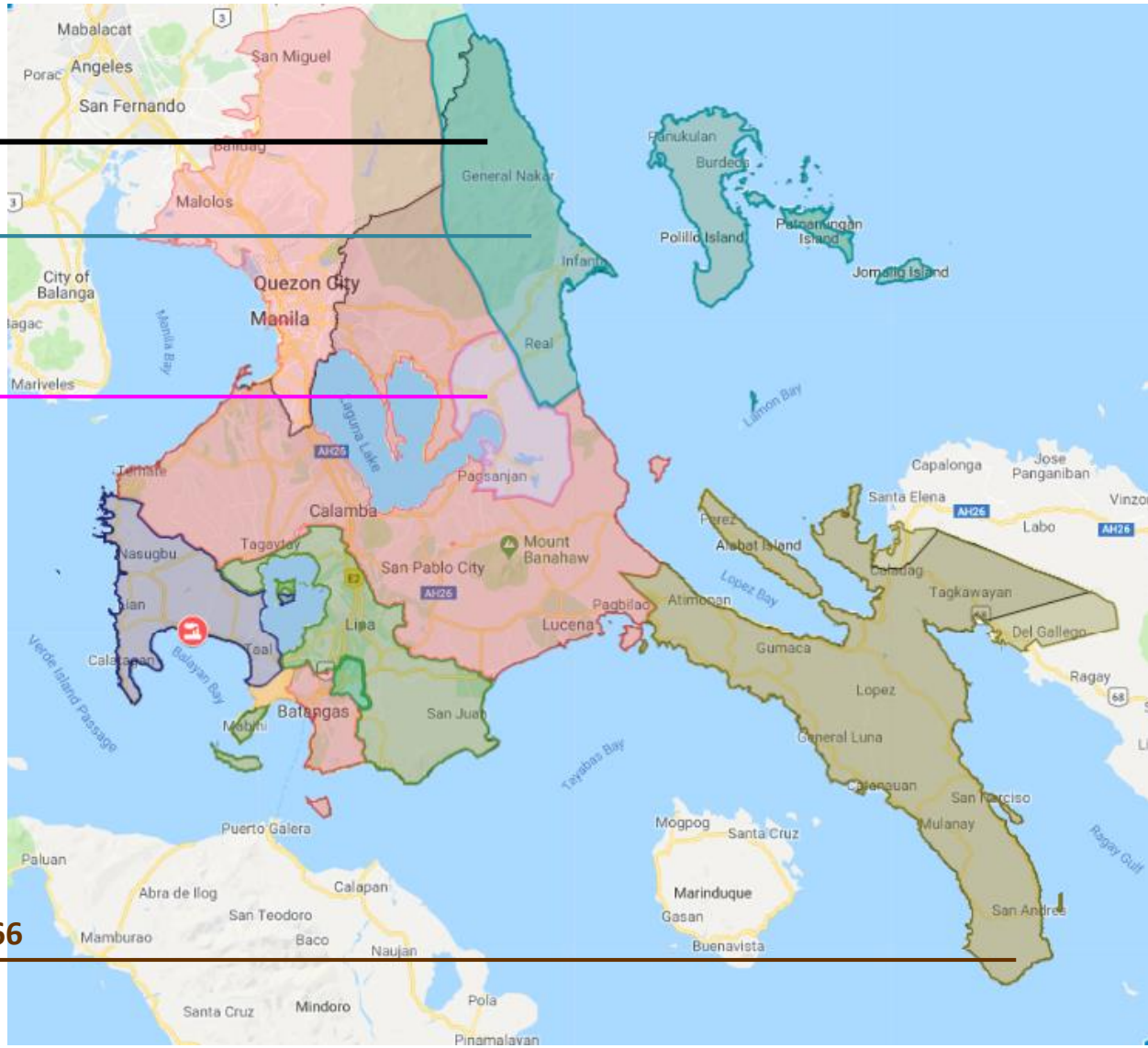
STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Host Region
Batangas

QUEZELCO II (2.29%) ₱2,348,315.26

FLECO (1.76%) ₱1,804,983.91

QUEZELCO I (5.95%) ₱6,112,110.66



STEP 3: DOE allocation and remittance of financial benefits to MERALCO

Distribution Utility	Serves host municipalities?	Serves host province?	Serves host region?	% Share	Amount Share
BATELEC I	Yes	Yes	Yes	60.00%	₱61,592,459.05
BATELEC II		Yes	Yes	3.75%	₱3,848,259.59
FBPC (BELS)		Yes	Yes	0.21%	₱215,545.82
IEEC		Yes	Yes	0.18%	₱183,477.51
MERALCO		**Yes**	**Yes**	**25.86%**	**₱26,548,946.60**
FLECO			Yes	1.76%	₱1,804,983.91
QUEZELCO I			Yes	5.95%	₱6,112,110.66
QUEZELCO II			Yes	2.29%	₱2,348,315.26
				100%	**₱102,654,098.41**

Transfer of Funds from Sem Calaca Coal Power Plant to MERALCO

STEP 1: Establish trust account in AGDB named "*MERALCO-Sem Calaca -EF- (ER1-94)*"

STEP 2: Submission of bank certificate and authority to sign. Make sure no pending liquidation of projects also

STEP 3: DOE allocation and remittance of financial benefits to MERALCO

PHP ₱26,548,946.60 shall be transferred to MERALCO trust account

STEP 4: Submission of official receipt (O.R.) to DOE

REPEAT STEPS 1 to 4 TO ALL OTHER POWER PLANTS !!!

E.R. 1-94 Electrification Fund Available to MERALCO*

Region	Electrification Fund	Number of Power Facilities
NCR	₱44,325,914.71	10
Region III	₱24,825,330.05	34
Region IV-A	₱547,127,151.13	33
	₱ 616,278,395.89	

TOTAL EF FOR MERALCO

EST. NO. OF TRUST ACCOUNTS TO OPEN

*Figures not final
*Power plants with not reconciled values from PCD not included yet

Challenges and Ways Forward

Challenges

1. Allocation and transfer of existing fund administered by DOE
2. Establishment of multiple trust accounts by the DUs
3. Liquidation of previous ER 1-94 projects

Ways Forward

1. Formation of ER 1-94 reconciliation team
2. DU establishment of trust accounts and submission of requirements
3. DOE facilitation of technical inspection for the close-out of DU completed projects
4. DOE issuance of supplemental advisories for further guidance on the ER 1-94 program implementation

Thank you.