

COVENANT ON PRIVATE SECTOR PARTICIPATION IN POWER GENERATION IN OFF-GRID ISLANDS AND ISOLATED AREAS

Recognizing that private investment in electric power generation in off-grid islands and isolated areas will ensure adequate, reliable and affordable electricity to communities in such areas;

Responding to the development need of rural communities for quality electric power infrastructure and electricity service;

Integrating the electric power industry to the sustainable development of off-grid small islands and isolated areas; and

Recognizing that the Private Sector Participation (PSP) program in power generation in off-grid islands and isolated areas currently served by the Small Power Utilities Group (SPUG) of the National Power Corporation (NPC) is an opportunity for private-public partnership in development,

We, the concerned private and public stakeholders in the electric power industry in the off-grid islands and isolated areas, pledge and commit ourselves to undertake the following responsibilities as our covenant to the peoples of small islands and isolated areas.

Department of Energy

1. Provide policy direction and ensure the implementation of the PSP program in the context of genuine good governance, public service and business management.
2. Ensure that the political economy of the electric power industry in each off-grid island and isolated area will contribute towards economic and total human development.
3. Provide stewardship to all private and public stakeholders in the electric power industry in each off-grid small island and isolated area in developing a common and shared understanding and a unified effort towards the success of PSP program.
4. Ensure the timely publication of the Missionary Electrification Development Plan (MEDP) to facilitate the timely release of missionary electrification subsidy from the universal charge to concerned New Power Providers (NPPs) and SPUG.
5. Institutionalize the formulation of a Power Development Plan (PDP) for each off-grid island and isolated area which will be comprised of the Distribution Development Plans (DDPs) of concerned electric cooperatives (ECs) and the Missionary Electrification Plan (MEP) of SPUG and will be consolidated to form the MEDP, thereby enabling the evolution of the MEDP into a holistic and integrated development plan.

6. Issue a Department Circular to establish the program, guidelines and timetable for the performance of the commitments in the covenant.

National Electrification Administration

1. Provide assistance to ECs in the conduct of the competitive selection process to determine the appropriate NPPs .
2. Ensure that ECs are in complete solidarity with their chosen NPPs to guarantee the benefits from the PSP program, particularly in terms of installing mechanisms that will reduce system loss and comply with the technical and performance requirements and standards of the Philippine Distribution Code.
3. Provide assistance to ECs in formulating electricity rates that will gradually reduce the missionary electrification subsidy from the universal charge
4. Ensure that the DDPs of ECs will clearly determine the electricity supply and demand profile of each off-grid island and isolated area and will be consistent with the municipal or provincial development plans of local government units.
5. Assist the concerned ECs in the immediate resolution of their power accounts payable to the NPC in order not to adversely affect the performance of their financial obligation in the Power Supply Agreement (PSA) with NPPs.

National Power Corporation

1. Ensure a definitive and smooth phase in – phase out arrangement of generation facilities with the NPPs.
2. Ensure the timely filing with the Energy Regulatory Commission (ERC) the required missionary electrification subsidy from the universal charge of each concerned NPP.
3. Ensure the optimization and prudent management of SPUG assets and resources, particularly in the rehabilitation, relocation, retirement and lease of generator sets.
4. Consult with the concerned stakeholders in the development of the MEP in line with the principles of transparency and participatory development planning.
5. Promptly act in resolving electric power generation and transmission issues and concerns to ensure the successful implementation of the PSP program.
6. Pending the commencement of commercial operations of the generation facilities of NPPs under their PSAs, provide necessary assistance to ensure

adequate and reliable supply of electricity within the franchise area of electric cooperatives including lease or interim operation and maintenance agreements under terms acceptable to the NPP.

7. Continue to provide transmission lines services unless the lines are purchased by the ECs or local distribution utility.
8. Prepare operating guidelines for the phase-out of the rental generation services to limit the provision of rental generation services to emergency.
9. With the intervention of the NEA, pursue the resolution of the power accounts receivable from concerned ECs.

Power Sector Assets and Liabilities Management Corporation

1. Ensure the timely release and proper allocation of the ERC-approved missionary electrification subsidy from the universal charge to each concerned NPP and SPUG.
2. Conduct an audit on the utilization of the subsidy for each power plant and activity as indicated in the MEDP and as individually approved by the ERC.

Energy Regulatory Commission

1. Ensure the timely approval of PSAs between the electric cooperatives and NPPs as well as the missionary electrification subsidy of the qualified NPP in order to safeguard the financial viability of private investments in power generation and to meet the commercial operation date of generation facilities.
2. Develop and implement the necessary regulations to complement the missionary electrification policies of the DOE and ensure compliance thereof.

New Power Providers

1. Exert best efforts to meet the committed commercial operation date of generation facilities.
2. Ensure compliance with their contractual obligations under the PSA and related agreements.
3. Ensure that their relationship with the off-taker electric cooperatives supports and promotes equal partnership in development and good corporate governance.

4. Optimize the use of locally available energy resources including renewable and indigenous energy, provided that the energy mix will not result in undue increases in power charges to the consumers.

Electric Cooperatives

1. Ensure timely filing with the ERC the approval of the PSA.
2. Ensure compliance with their contractual obligations under the PSA and related agreements.
3. Provide the necessary distribution support to the power generation activities of the NPPs to ensure timely commissioning and quality operation of generation facilities.
4. Ensure that their relationship with the NPPs supports and promotes equal partnership in development and good corporate governance.
5. Exert best efforts to insulate the NPPs from local partisan politics and rent capitalism.
6. With the assistance of the NEA, negotiate with the NPC the resolution of their power accounts payable to the NPC in order not to adversely affect the performance of their financial obligation in the PSA with NPPs.

Done, during the SPUG Privatization Summit on the 7th day of December 2007 in Quezon City, Philippines.

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