

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SIXTEENTH CONGRESS
First Regular Session

House Bill No. 677



Introduced by: **EDGARDO RAMA MASONGSONG**

EXPLANATORY NOTE

The total electrification of the country is the ultimate objective of the government ever since the creation of the electric cooperatives. Such goal can only be achieved if the electric cooperatives are given the absolute discretion in its operation with less interference from the supervising government agency. The current operational system of the electric cooperatives is too restrictive and repressive which proved to be counter-productive and non-developmental, such that there is an urgent need to strengthen the electric cooperatives by empowering them to some extent vis-à-vis the supervisory authority of the particular entity in order to absolutely guarantee the fulfilment of its mandate for total rural electrification;

There is likewise an urgent need to consolidate and augment the current legislations governing the electric cooperatives if only to attain the government's objectives.

This bill seeks to institutionalize the processes and operations of the electric cooperatives with definite and autonomous system of sustainability and performance of its functions and responsibilities in the current field of rural electrification.

Empowering back NEA in the grant, alteration/amendment/modification of the Franchises of electric cooperatives is designed for purposes of convenience of cooperatives concerned whose status are non-stock and non-profit. Being service oriented, cooperatives should be afforded the immediate relief for its problem of corporate restructuring to continuously go along with the current trend of the power industry being the government partner on rural electrification.


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**AN ACT ESTABLISHING A MAGNA CARTA FOR ELECTRIC
COOPERATIVES TO GOVERN ITS CREATIONS, OPERATIONS,
AND FOR OTHER PURPOSES.**

*Be it enacted by the Senate and the House of Representatives of the Philippines in
Congress assembled:*

CHAPTER I - POLICY AND DEFINITIONS

Section 1. Short Title.- This Act shall be known as the MAGNA CARTA FOR ELECTRIC COOPERATIVES.

Section 2. Declaration of National Policy.- It is hereby declared to be the policy of the State to pursue and foster the total electrification of the Philippines in an orderly and vigorous manner, being vital to its people and continued development to the Nation. For this purpose the State shall assist all electric cooperatives now operating in an area coverage basis and are willing to pursue this objective to the best of its respective capabilities.

Section 3. Definitions.- As used in this Act, the following words or terms shall have the following meanings, unless provided otherwise:

- (a) "NEA" shall mean the National Electrification Administration.
- (b) "Cooperative" shall mean the electric cooperatives now existing and organized under Presidential Decree No. 269 as amended.
- (c) "Service" shall mean the electric service rendered by the electric cooperatives.
- (d) "Area" shall mean the geographic area franchised to an electric cooperative.
- (e) "Franchise" shall mean the privilege extended to the electric cooperatives or a person or other corporate entity extended the privilege to operate an

electric system for service to the public at retail within a described geographic area, whether such privilege had been granted by NEA or Congress.

- (f) "Non-profit" shall mean that the electric cooperatives shall not engaged in business for the purpose of making profit for itself or its patrons, but shall mean that a cooperative may not account on a patronage basis to its members-consumers for any receipts in excess of its expenses in relation to its operations in service to such patrons or to investments of its surplus funds pending their use by the electric cooperatives or their refund to members-consumers; nor shall mean that such excess receipts may not be refunded to its members-consumers, or may not be converted into members-consumers-furnished capital subject to later redemption and retirement by the electric cooperative.
- (g) "Board" shall mean the board of directors of a cooperative.
- (h) "ERC" shall mean the Energy Regulatory Commission.
- (i) "CONSUMERS" refers to the members of the electric cooperatives, either personal or juridical.

CHAPTER II- ELECTRIC COOPERATIVES

Section 4.- Organization and Purpose.- An Electric Cooperative which has a non-stock, non-profit membership may be organized and registered for the purpose of distributing to the fullest extent the use of electric power in an area coverage basis at a cost as approved by concerned government regulatory entity.

Section 5.- Powers.- The Cooperative is hereby vested with all the powers necessary or convenient for the accomplishment of its corporate purpose. Such powers shall include, but not limited to, the power:

- (a) To sue and to be sued in its corporate name;
- (b) To have existence for a period of fifty (50) years; all existing electric cooperatives granted with Franchise or authority to operate by the NEA pursuant to Presidential Decree No. 269 as amended shall automatically be renewed its authority/Franchise to operate for another fifty (50) years from the date of approval of this Act.
- (c) To adopt a corporate seal and alter the same;
- (d) To generate, manufacture, purchase, acquire, accumulate and transmit electric power and energy to persons, natural or juridical, who are its members and to other persons, natural or juridical, who are non-members not in excess of ten per centum of its members; Provided, however, that a cooperative which acquires existing electric facilities may continue service from such facilities without requiring such persons to become members,

but such persons may become members as may be prescribed in the cooperative's by-laws;

- (e) To assist persons or entities to whom service is or will be supplied by the cooperative in wiring their premises in accordance with the standards set by law or regulations, local and national;
- (f) To construct, purchase, lease as lessee, or otherwise acquire, and to equip, maintain, and operate, and to sell, assign, convey, lease as lessor, mortgage, pledge, or otherwise dispose of or encumber, electric sub-transmission and distribution lines or system, electric generating plants, lands, buildings, structures, dams, plants and equipment, and any other real or personal property, tangible or intangible, which shall be deemed necessary, convenient or appropriate to accomplish the purpose for which the electric cooperative is created;
- (g) To purchase, lease as lessee, or otherwise acquire, and to use, and exercise and to sell, assign, convey, mortgage or pledge or otherwise dispose of or encumber franchises, rights, privileges, licenses and easements;
- (h) To waive its services over an area which the electric cooperative may deem unviable and can be conveniently operated by a qualified third party as may be determined by the Department of Energy; Provided, however, that the cooperative shall be a party in the determination of such qualified third party;
- (i) To borrow money and contract indebtedness from any banks or financial institutions whose terms and conditions are deemed advantageous to the cooperative; for this purpose, the cooperatives may issue notes, bonds and other evidence and indebtedness and to secure payment thereof by mortgage, pledge, or deed of trust of, or any other encumbrances upon, any or all of its owned or acquired real or personal properties, assets, franchises, or revenues;
- (j) To construct, maintain and operate electric sub-transmission and distribution lines along, upon under and across publicly and privately owned lands and public thoroughfares, including, without limitation, all roads, highways, streets, alleys, bridges and causeways; Provided, that such shall not prevent or unduly impair public uses to which such lands and thoroughfares are otherwise devoted;
- (k) To become a member of other Cooperatives or Corporation or to own stock therein;
- (l) To conduct its operations and exercise its powers within or without the province or provinces in which it supplies service pursuant to its franchise or authority;
- (m) To adopt, amend and repeal its Articles of Incorporation and By-laws;

- (n) To maintain, implement, and collect rates, fees, rents, tolls and other charges and terms and conditions as may be approved by the concerned government regulatory body;
- (o) To exercise the power of Eminent domain. The Cooperative may, through the General Manager and acting pursuant to a Board Resolution duly passed and approved by the Board of Directors, exercise the power of eminent domain for the benefits and welfare of its members-consumers for purposes of acquiring properties necessary in the construction of distribution lines and other facilities needed for its operation, upon payment of just compensation, pursuant to the provisions of the Constitution and pertinent laws; Provided, however, that the power of eminent domain may not be exercised unless a valid and definite offer has been previously made to the owner, and such offer was not accepted: Provided, further that the cooperative may take immediate possession of the property upon the filing of the expropriation proceedings and upon making a deposit with the proper court of at least fifteen (15%) percent of the fair market value of the property based on the current tax declaration of the property to be expropriated: Provided, finally, That, the amount to be paid for the expropriated property shall be determined by the proper court, based on the fair market value at the time of the taking of the property or the filing of the petition for expropriation, whichever comes first.
- (p) To do and perform any other acts and things, and to have and exercise powers which may be necessary, convenient or appropriate to accomplish the purpose for which the cooperative is organized.

Section 6.- Name.- The name of the cooperative shall include the words "Electric" and "Cooperative", and the abbreviation "Inc.". The name of the cooperative shall be distinct from each other.

Section 7. Incorporators.- Five or more persons, including cooperatives or other juridical entities may organize a cooperative in the manner hereinafter provided.

Section 8. Articles of Incorporation.- The Articles of Incorporation of the cooperative shall provide that it is constituted pursuant to this Act and shall state: (a) the name of the electric cooperative in accordance with Section 6 hereof; (b) the address of its principal office; (c) the names and addresses of the incorporators; (d) the names and addresses of its original board of directors, who shall constitute the board until the first election of the board of directors by the members; (e) other provisions not inconsistent with this Act deemed necessary for the conduct of its operations. Such Articles of Incorporation shall be signed by each incorporator and acknowledged before an authorized administering officer by at least two of the incorporators (or on its behalf, if cooperatives).

Section 9. By-Laws.- The by-laws shall set forth the basic rights and duties of the members and directors and may contain other provisions for the regulation and management of the affairs of the cooperative not inconsistent with its Articles of Incorporations or this Act, which shall be initially approved by the members in a

general assembly. Thereafter, the power to amend any of the provision of the by-laws and to adopt such amendment shall be exercised by the Board of Directors with a majority vote of all its directors in office, after due notice to all directors, being a requisite for such purpose; Provided, however, that any action to repeal the by-laws or dissolve or change the juridical personality of the cooperative shall be with the approval of a TWO THIRD (2/3) votes of all the members attending in a regular or special general assembly called for the purpose.

Section 10.- Members.- Each incorporator of the cooperative shall be a member thereof, but other persons may become members thereof unless such other persons agree to use the services furnished by the cooperative when made available by it. Membership in the cooperative shall not be transferable, except as provided in the by-laws. The by-laws may prescribe additional qualifications and limitation with respect to membership.

The provision of any law or regulation to the contrary notwithstanding, an officer or employee of the government shall be eligible for membership in the cooperative if he meets the qualifications therefore and he shall not be precluded from being elected to or holding any position therein, or from receiving such compensation or fee in relation thereto as may be authorized by the by-laws; Provided, that elective officials of the government, except barangay captains and councillors, shall be ineligible to become officers and/or directors of the cooperative. For this purpose, individual permission need not be obtained from the proper head of office of the said elective or appointive government employee; Provided, however, that this authority shall not be construed as a permit to the government officer or employee concerned to devote official time to the affairs of the cooperative.

Section 11. Meetings of Members.- (a) An annual meeting of the members of the cooperative shall be held at such time and place as shall be provided in the by-laws.

(b) Special meetings of the members may be called by the President, by the Board, by any three directors, or, unless a smaller number or percentage as may be prescribed by the by-laws, by not less than one hundred (100) members or five per centum of all the members, whichever shall be lesser.

(c) Except as otherwise provided in this Act and unless otherwise provided for in the by-laws, written or printed notice stating the time and place of each meeting of the members and, in the case of special meeting, the purpose or purposes for which the meeting is called, shall be given to each member, either personally or by mail, not less than ten days nor more than twenty-five days before the date of the meeting. If mailed, such notice shall be deemed to be given when deposited in the Philippine mail with postage prepared, addressed to the member at his last known address as it appears on the records of the electric cooperative.

(d) Unless the by-laws prescribed the presence of a greater or lesser percentage or number of the members for such purpose, a quorum for the transaction of business at all meetings of the members of the cooperative shall be five percentum of all members or 1,000, whichever is lesser, present in person. If less than a quorum is present at any meeting, a majority of those present in person may adjourn the

meeting from time to time without further notice. For purposes of convenience of the members and to achieve greater participation of the members, the cooperative may avail of the modern technology such as video links in the conduct of the assembly in such manner as it may deem appropriate.

(e) Each member, shall be entitled to one vote of each matter submitted to a vote at a meeting of the members. Voting shall be non-cumulative and in person, but may also be by mail or by proxy.

Section 12. Waiver of Notice.- Any person entitled to notice of a meeting may waive notice in writing wither before or after such meeting; however, his attendance shall constitute a waiver of notice of such meeting, unless such person participates therein solely to object to the transaction of any business because the meeting has not been legally called or convened.

Section 13. Board of Directors.- The corporate power of the cooperative shall be exercised by a board of directors of not less than five directors, each of whom shall be a member of the cooperative or of another which is a member thereof, who shall be chosen by the members at the annual general membership assembly.

The composition, qualifications, the manner of elections and filling of vacancies, the procedures for holding meetings and other similar provisions shall be defined in the by-laws of the cooperative without any interference from nor subject to review by any government functionaries.

No member of the Board shall receive any salary for his service as Director nor for services rendered in any other capacity. However, reasonable per diems for every Board meeting actually attended and reimbursement of actual expenses incurred in the performance of the duties of a member of the Board may be allowed in such amount as may be determined by the Board of Directors in a resolution passed and approved for the purpose.

A majority of the board of directors in office shall constitute a quorum.

Section 14.- Duties and Responsibilities of the Board of Directors.- Essentially the duties and responsibilities of the Board of directors encompasses the following:

A. Policy-Making Functions.

1. Sets the overall goals and objectives of the cooperative.
2. Formulates and adopts, in consultation with the General Manager, policies and guidelines that will govern the sound management and operations of the cooperative specially in the areas of system improvement and expansion, rates and service, finance, personnel administration and development, member and community relations.
3. Adopts in consultation with the General Manager, the annual work plan as well as the medium and long-term work programs of the cooperatives.,

4. Reviews existing cooperative policies and authorizes the revision of such in response to current needs.

B. Trustee Functions

1. Represents the members in their dual roles as co-owners of the cooperative and consumers of its services.
2. Insures protection of the assets of the cooperative.
3. Keeps the members constantly informed of their rights and responsibilities, the cooperative's objectives, plans and financial status, etc.; promotes public understanding of and support towards addressing the cooperative's operational problems specially in times of calamity when service disruptions occur.
4. Encourages members to participate actively and meaningfully in cooperative activities specially in annual and special membership meetings, district elections, information drives and campaign for policy implementation.
5. Ensures dependable service at reasonable rates.
6. Ensures his attendance in all official Board meetings, recognizing the principle that Board members exercise but only when the Board is in session and only when such Board member has special assigned duties.

C. Legal functions

1. Executes legal contracts such as the Loan Agreement, engineering and construction contracts and power supply arrangements, and assumes legal responsibility for the fulfilment of their terms and conditions.
2. Assures cooperative's compliance with the provisions of this Act and cooperative' By-Laws and with other pertinent national and local laws/ordinances.
3. Designates the cooperative's official depository banks and signatories thereto.
4. Authorizes preparation and safe keeping of corporate records and legal documents including Board resolutions and minutes of Board meetings.
5. Appoints the General Manager and legal counsel of the cooperative.

D. Resources Functions

1. Delegates substantial authority to the General Manager as Chief Executive Officer of the cooperative to enable him to implement the policies and plans adopted by the board and to effectively supervise the technical and business operations of the cooperative.

2. Borrows and requests the release of funds from NEA and other Financial/Lending institutions and ensures payment of the cooperative's loan obligation in accordance with its amortization schedule.
3. Explores other possible funding sources which the cooperative can avail of subject.
4. Authorizes the creation of committees, when necessary, whose work shall be limited only to deliberating and/or proposing policies on specific and emergency issues not resolvable during official Board meetings and provide per diems to the members thereof.

E. Controls functions

1. Reviews and analyzes financial operating, and program reports submitted by the Manager and checks the cooperative's performance against set standards and objectives.
2. Approves annual budgets presented by the Manager based on projected plans and programs and sees to it that expenditures are made within the approved cash operating budget.
3. Periodically assesses the performance of the General Manager and provides sanction for inefficiency and neglect.
4. Ensures that the books of the cooperatives are regularly and properly audited; reviews audit reports and adopts measures that will ensure compliance with audit recommendations.

Section 15.- Districts.- The by-laws may provide for the division of the territory served or to be served by the cooperative into as many districts as it may deem appropriate, including, without limitation, the nomination and election of the directors. The by-laws shall prescribe the boundaries of the districts, the manner of changing such boundaries, and the manner in which such districts shall function.

Section 16.- Officers.- The officers of the cooperative shall consist of a President, Vice-President, Secretary and Treasurer, who shall be elected annually by and from the Board. When a person holding such office ceases to be a director, he shall ipso facto cease to hold such office. The offices of Secretary and of the Treasurer may be held concurrently by one person. The Board may also elect or appoint such other officers, agents or employees as it deems necessary or advisable and shall prescribe their duties, functions, salaries or emoluments and manner of discipline and removal subject to the provisions of the Labor Code of the Philippines.

Section 17.- Amendment of Articles of Incorporation.- The cooperative may amend its articles of incorporation by presenting the proposed amendment to the members in a meeting called for the purpose, the notice of which shall set forth or have attached thereto the proposed amendment. If the proposed amendment, with any

changes, is approved by affirmative vote of not less than TWO-THIRDS of the total votes cast thereon at such meeting, the articles of amendment shall be executed and acknowledged on behalf of the electric cooperative by its president or vice-president and its seal be affixed thereto and attested by the secretary. The articles of amendment shall recite that they are executed pursuant to this Act and shall state: (1) the name of the cooperative; (2) the address of its principal office; and (3) the amendment to its articles of incorporation.

The president or vice-president executing such articles of amendment shall make the annex thereto an affidavit stating that the provisions of this section with respect to the amendment set forth in such articles were duly complied with.

Section 18.- Change of Location of Principal Office.- The electric cooperative, upon authorization its board of directors in a resolution passed and approved for the purpose, change the location of its principal office by filing a certificate of change of location of principal office, executed and acknowledged by the president or vice-president, with the office provided for in Section 23 hereof.

Section 19.- Consolidation.- Any two or more cooperatives (each of which is hereinafter designated a "consolidating cooperative") may consolidate into a new cooperative (hereinafter designated the "new cooperative"), by complying with the following requirements:

- (a) The proposition for the consolidation of the consolidating cooperatives into the new cooperative and proposed articles of consolidation to give effect thereto shall be submitted to a meeting of the members of each consolidating cooperative, the notice of which shall have attached thereto a copy of the proposed articles of consolidation or an accurate summary thereof;
- (b) If the proposed consolidation and the proposed articles of consolidation, with any amendments, are approved by the affirmative vote of not less than TWO-THIRDS of the total votes cast thereon by each consolidating cooperative voting thereon at each such meeting, articles of consolidation in the form approved shall be executed and acknowledged on behalf of each consolidating cooperative by its president or vice-president and its seal shall be affixed thereto and attested by its secretary. The articles of consolidation shall recite that they are executed pursuant to this Act and shall state: (1) the name of each consolidating cooperative and the address of its principal office; (2) the name of the new cooperative and the address of its principal office; (3) a statement that each consolidating cooperative agrees to the consolidation; (4) the names and addresses of the directors of the new cooperative; and (5) the terms and conditions of the consolidation and the mode of carrying the same into effect, including the manner in which members of the consolidating cooperatives may or shall become members of the new cooperative; and may contain any other provisions not consistent with this Act that are deemed necessary or advisable for the conduct of the affairs of the new cooperative. The president or vice-president of each consolidating cooperatives executing such articles of consolidation shall make an annex thereto an affidavit that the provisions

of this section with respect to such articles were duly complied with by such cooperative.

Section 20. Merger.- any one or more cooperatives (each of which is hereinafter designated a "merging cooperative") may merge with one or more other cooperatives by complying with following requirements:

- (a) The proposition for the merger of the merging cooperatives into the surviving cooperative and proposed articles of merger to give effect thereto shall be submitted to a meeting of the members of each merging cooperative and of the surviving cooperative, the notice of which shall have attached thereto a copy of the proposed articles of merger or an accurate summary thereof.
- (b) If the proposed merger and the proposed articles of merger, with any amendments, are approved by the affirmative vote of not less than TWO-THIRDS of the total votes cast thereon by each cooperative voting thereon at each such meeting, articles of merger approved shall be executed and acknowledged on behalf of each such cooperative by its president or vice-president and its seal affixed thereto and attested by the secretary. The articles of merger shall recite that they are executed pursuant to this Act and shall state: (1) the name of each merging cooperative and the address of its office; (2) a statement that each merging cooperative and the surviving cooperative agree to the merger; (3) the names and addresses of the directors of the surviving cooperative; (4) the terms and conditions of the merger and the mode of carrying the same into effect, including the manner in which members of the merging cooperatives may or shall become members of the surviving cooperative, and may contain any other provisions not inconsistent with this Act that are deemed necessary or advisable in the conduct of the affairs of the surviving cooperative. The president or vice-president of each cooperative executing such articles of merger shall make and annex thereto an affidavit stating that the provisions of this section with respect to such articles were duly complied with by such cooperative.

Section 21. Effect of Consolidation or Merger. -

(a) In the case of consolidation, the existence of the consolidating cooperative shall cease and the articles of consolidation shall be deemed to be the articles of incorporation of the new cooperative; and in the case of merger, the separate existence of the merging cooperatives shall cease and the articles of incorporation of the surviving cooperative shall be deemed to be amended to the extent, if any, that changes therein are provided for in the articles of merger;

(b) All rights, privileges, immunities and franchises and all property, real and personal, including without limitation applications for membership, all debts due on whatever account and all other choses in action of each of the consolidating or merging cooperatives shall be deemed to be transferred to and vested in new or surviving cooperative without further act or deed;

(c) the new or surviving cooperative shall be responsible and liable for all the liabilities and obligations of each of the consolidating or merging cooperatives, and any claim existing or action or proceeding pending by or against any of the consolidating or merging cooperatives, be prosecuted as if the consolidation or merger had not taken place, but the new or surviving cooperatives shall be substituted in its place; and

(d) Neither rights of creditors nor any liens upon the property of any such cooperatives shall be impaired by such consolidation or merger.

Section 22. Dissolution.- A cooperative may be dissolved in the following manner:

The proposition to dissolve shall be submitted to the members of the cooperative at any annual or special general assembly, the notice of which shall set forth such proposition. The members at any such assembly shall approve, by the affirmative vote of not less than a majority of all members of the cooperative, the proposition that the cooperative be dissolved (hereinafter designated the "certificate") shall be executed and acknowledged on behalf of the cooperative by the president or vice-president under its seal, attested by its secretary, stating; (a) the name of the cooperative; (b) the address of its principal office; and (c) that the members of the cooperative have only voted that the cooperative be dissolved. Also, an affidavit, made by its president or vice-president executing the certificate, shall state that the statements in the certificate are true. Upon filing of the certificate and affidavit as provided for in Section 24, the cooperative shall cease to carry on its business except to the extent necessary for the winding up thereof, but its corporate existence shall continue until the articles of dissolution shall have been filed. That Board shall immediately cause notice of the dissolution proceedings to be mailed to each known creditor of and claimant against the cooperative and to be published once a week for two consecutive weeks in a newspaper of general circulation in the territory in which the principal office of the cooperative is located. The board shall wind up and settle the affairs of the cooperative, collect sum owing to it, liquidate its property and assets, pay and discharge its debts, obligations and liabilities, other than those to its patrons arising by reason of their patronage and do all other things required to wind up its business, and after paying or discharging or adequately providing for the payment or discharge of all its debts, obligations and liabilities, other than those to patrons arising by reason of their patronage, shall distribute any remaining sums and/or unliquidated assets, first, to patrons for the pro-rata return of all amounts standing to their credit by reason of their patronage; second, to members, for the pro rata payment of membership fees; and third, to patrons for the amounts of any outstanding contributions in aid of constructions they have made. Any sums and/or unliquidated assets then remaining shall be distributed in such manner as provided in the cooperative's articles of incorporation or by-laws, which may provide for distribution of such sum or assets on a patronage basis to persons who were members in one or more prior years or for transfer thereof to a new cooperative to succeed the one being dissolved. The board shall thereupon authorize the execution of the articles of dissolution, which shall be executed and acknowledged in behalf of the cooperative by its president or vice-president, and its seal shall be affixed thereto and attested by the secretary. The articles of dissolution shall recite that they are executed pursuant to

the this Act and shall state: (1) the name of the cooperative; (2) the address of its principal office; (3) the dates on which the election for dissolution was filed; (4) that there are no actions or suits pending against the cooperative; (5) that all debts, obligations and liabilities of the cooperative have been paid and disregard or that provision to the extent possible has been made therefor; (6) that the provisions of this section has been complied with. The president or vice-president executing the articles of dissolution shall make the annex thereto an affidavit stating that the statements made therein are true.

Section 23.- Conversion of Electric Cooperatives Registered under the Cooperative Development Authority.- Any Electric Cooperatives registered with the Cooperative Development Authority may convert itself into a cooperative under this Act by complying with the following requirements, and shall thereupon become subject to this Act with the same effect as if originally organized hereunder:

- (a) The proposition for the conversion of such cooperatives and proposed articles of conversion to give effect thereto shall be submitted to a meeting of the members of such cooperative, the notice of which shall have attached thereto a copy of the proposed articles of conversion or an accurate summary thereof;
- (b) If the proposition for conversion and the proposed articles of conversion, with any amendments, are approved by the affirmative vote of not less than TWO-THIRDS of the total votes cast thereon by members in such meeting, articles of conversion in the form approved shall be executed and acknowledged on behalf of such cooperative by its president or vice-president and its seal shall be affixed thereto and attested by its secretary. The articles of conversion shall recite that they are executed pursuant to this Act and shall state: (1) the name of the cooperative and the address of its principal office; (2) a statement that such cooperative agrees to become a cooperative under this Act; (3) its name as a cooperative under this Act; (4) the names and addresses of the directors of the cooperative; and (5) the the manner in which members may or shall become members of the cooperative under this Act; and may contain any other provisions not consistent with this Act that are deemed necessary or advisable for the conduct of the affairs of the new cooperative. The president or vice-president of each consolidating cooperatives executing such articles of consolidation shall make an annex thereto an affidavit that the provisions of this section with respect to such articles were duly complied with by such cooperative. The articles of conversion shall be deemed the articles of incorporation of the cooperative.

Section 24. Filing of Articles and Certificates.- Articles of Incorporations, amendment, consolidation, merger, or dissolution and certificates of changes in the location of principal offices and elections to dissolve, when executed and acknowledged and accompanied by such affidavits as may be required by applicable provisions of this Act shall be presented for filing in the Office of the NEA Administrator. If the NEA Administrator finds that such conforms to the requirements of this Act, he shall so certify and shall file such in the records of his office. Upon

such certification and filing, the incorporation, amendment, consolidation, merger, dissolution or certificate provided for therein shall be in effect.

Section 25. Non-profit, Non-discriminatory, Area Coverage Operation and Service.- A cooperative shall be operated on a non-profit basis for the mutual benefit of its members and patrons, shall, as to rates and services make or grant no unreasonable preference or advantage to any member or patron nor subject any member or patron to any prejudice or disadvantage; shall consistently abide with the rates set by the Energy Regulatory Commission and its other related issuances or orders; shall not give, pay or receive any rebate or bonus, directly or indirectly, or mislead its members in any manner as to rates charged for its services; and shall furnish service on an area coverage basis; Provided, that for any extension of service which if treated on the basis of standard terms and conditions is so costly as to jeopardize the financial feasibility of the cooperative's operation, the cooperative may require such contribution in aid of construction, such facilities extension deposit, such guarantee of minimum usage for a minimum term or such other reasonable commitment on the part of the person to be served as may be necessary and appropriate to remove such jeopardy, but no difference in standard rates of use of service shall be imposed for such purpose, except those which by law or regulation and other issuances of the Energy Regulatory Commission shall allow.

The by-laws of a cooperative or its contracts with members and patrons shall contain such reasonable terms and conditions respecting membership, the furnishing of service and the disposition of revenues and receipts as may be necessary and appropriate to establish and maintain its non-profit, cooperative character and to assure compliance with this section. No bona fide applicant for membership on non-member patronage who is able and willing to satisfy and abide by all such terms and conditions shall be denied arbitrarily, capriciously or without good cause.

Section 26.- Disposition of Property.- (a) The board of the cooperative shall have full power and authority, without the authorization by the members thereof, to authorize the execution and delivery of a mortgage or deed of trust, or the pledging or encumbering otherwise, of any or all of the property, assets, rights, privileges, license, franchises, and permits of the cooperative, whether acquired or to be acquired, and wherever situated, as well as the revenues therefrom, all upon such terms and conditions as the board shall determine, to secure any borrowing by or indebtedness of the cooperative; (b) A cooperative may not otherwise sell, lease, or except by consolidation or merger, otherwise dispose of the property (other than merchandise and property which shall represent not in excess of ten percentum of the value of the cooperative's total assets, or which in the judgment of the board are not necessary or useful in operating the cooperative) unless such sale, lease or except in the case of consolidation or merger, other disposition is (1) authorized by the affirmative vote of not less than a majority of all members of the cooperative; and (2) **consented to lending institutions which then hold a lien on such particular property subject of disposition.**

Section 27.- Non-liability of Members for Debts of Cooperative.- No member shall be liable or responsible for debts of the cooperative and the property of the members shall not be subject to the execution therefor.

Section 28. - Limitation of Actions.- No action or suit may be brought against the agent, officers, members of the board or employee of the cooperative, by reason of the maintenance of electric sub-transmission lines, distribution lines and related facilities, machinery or equipment or real property after the expiration of a period of TWO (2) years of continuous maintenance of such lines and related facilities, equipment, machinery or real property.

Section 29.- Exemption from Taxes, Impost, Duties, Fees.- Provided that it operates in conformity with the purposes and provisions of this Act, the cooperative shall be permanently exempt from paying (a) Income Taxes and of all other national government and local government taxes and fees, including but not limited to franchise tax, real property tax, business tax, license or permit fees, charges or costs involved in any court or administrative proceedings in which the cooperative may be a party; (b) of all duties or imposts on foreign goods or equipment acquired for its operation.

The Department of Finance is hereby mandated to promulgate rules and regulations for the proper implementation of this provision within THIRTY (30) days from effectivity of this Act.

Section 30.- Exemption from Securities and Exchange Commission.- The provisions of the Securities Act shall not apply to any note, bond or other evidence of indebtedness issued by any cooperative or to any mortgage, deed or trust, indenture or other instrument executed to secure the mortgage. The provisions of said Act shall not apply to the issuance of membership certificates or any other evidence of member or patron interest by a cooperative.

Section 31.- Government Assistance.- The government shall continuously provide the Cooperatives financial assistance in its mandate for rural electrification. Towards this end, and for purposes of easing the burden of continuing imposition of penalties in the form of interests and surcharges imposed by the Power Sector Assets and Liabilities Management Corporation (PSALM), National Power Corporation (NPC) on powers purchased by cooperatives prior to the effectivity of this Act and remained unsettled, said penalties are hereby condoned, and cooperatives shall pay only the principal accruing as of the effectivity of this Act.

The PSALM and NPC are hereby directed to allow cooperatives to restructure their accounts to the least payment scheme so as not to unduly burdened the cooperatives and its members-consumers. The operation of the cooperatives being vested with public interest, in no case shall power curtailment be resorted to by PSALM and NPC in the event of disagreement in the terms and conditions of the repayment scheme.

CHAPTER III NATIONAL ELECTRIFICATION ADMINISTRATION

Section 32.- National Electrification Administration. – The Cooperatives shall be under the supervision of the National Electrification Administration (NEA) created pursuant to Presidential Decree No. 269 as amended; Provided, however, that such

supervision shall be limited only to the conduct of trainings, seminars and financial assistance, through loans, when necessary. Cooperatives should be autonomous in its operations, in order to afford them the opportunity to be self reliant, and genuine partners of the government in the latter's goal for total rural electrification.

In the grant of financial assistance NEA is authorized to provide terms and conditions necessary to protect its interest, but not necessary repressive and counter-productive on the part of the cooperative. The interest to be charged on such loans shall be competitive with other financial institutions and in no case shall be more than the impositions of the private sector.

The supervisory authority of NEA should not be construed and exercised to the extent that it will defeat the autonomous nature of the cooperatives.

Disciplinary actions for erring officers and employees, except the members of the board of directors shall pertain to the cooperative in accordance with the disciplinary and grievance processes installed for the purpose. Cooperatives are directed to promulgate disciplinary rules and regulations pursuant to the Labor Code of the Philippines within thirty (30) days from effectivity hereof.

Decisions of the disciplinary and grievance committee may be reviewed only by the judiciary.

Section 33.- Franchising Powers Delegated to the NEA.- The power to grant and thereafter to repeal, alter or amend new franchises, or repeal, alter or amend all franchises heretofore granted by the Congress of the Philippines is hereby delegated to NEA, whose Board of Administrators shall, acting as a Commission, administer the provisions of this Chapter. In exercising the powers herein delegated, the NEA shall at all times seek to serve the national objective of the most rapid total electrification of the Philippines on an area coverage basis. To effectively implement this provision, NEA is authorized to promulgate rules and regulations for the purpose.

Section 34.- Furnishing Electric Service Without a Franchise Prohibited.- No person, natural or juridical, shall furnish or extend electricity service to the public within any area for which person has not been granted a franchise or after such franchise has been repealed and cancelled or so conditioned or altered as to prohibit service therein; Provided, that such service may be continued and extended herein, and the NEA, after affording opportunity for hearing to any interested party, may by order require that it be so continued and extended, until service to the customers of such person is made available by a public service entity lawfully authorized to service therein.

CHAPTER IV. –CREDIT FINANCING

Section 35.- Scope- This Chapter shall govern the power of cooperatives to create indebtedness and to enter into credit and other financial transactions.

Section 36. General policy- (a) It shall be the basic policy that the cooperative may create indebtedness, and avail of credit facilities to finance its infrastructure and other capital expenditure projects in accordance with the Board's approved

development plan; (b) the cooperative may avail of credit lines from NEA or other private banks and lending institutions for the purpose of stabilizing its finances.

Section 37. Loans, Credits, and Other Forms of indebtedness of Cooperatives.- (a) A cooperative may contract loans, credits, and other forms of indebtedness with NEA or any government or domestic private bank and other lending institutions to finance the construction, installation, improvement, expansion, operation, or maintenance of facilities, the acquisitions of real property, and the implementation of other capital projects, subject to such terms and conditions as may be agreed upon by the cooperative and the lender.

(b) the cooperative may likewise secure from NEA and any government bank and lending institution short, medium and long-term loans and advances against security of real estate or other acceptable assets for the establishment, development, or expansion of its lines and other facilities, and other projects designed to develop and uplift the cooperative's human resource.

(c) NEA and other government financial and private lending institutions are hereby authorized to grant loans, credits, and other forms of indebtedness out of their loanable funds to the cooperatives for purpose specified above.

Section 38. Deferred- Payment and Other Financial Schemes- Cooperatives may likewise acquire property, machinery, equipment, construction of lines and relevant facilities and such necessary accessories under a supplier's credit deferred payment plan, or other financial scheme.

Section 39. Bonds and Other Long-Term Securities- Subject to the rules and regulations of the Central bank cooperatives are hereby authorized to issue bonds, debentures, securities, collaterals, notes and other obligations to finance self liquidating, income-producing development or livelihood projects pursuant to the priorities established in the program. The Board concerned shall, through a resolution approved by a majority of all its members, declare the terms and conditions of the bonds and the purpose for which the approved indebtedness is to be incurred.

Section. 40. Inter-Cooperative Loans, Grants, and Subsidies.- Cooperatives may, upon approval of the majority of all members of the Board and in amounts not exceeding their surplus revenues, extend loans, grants, or subsidies to other electric cooperatives under such terms and conditions as may be agreed upon by the contracting parties. The cooperatives may, upon approval of their respective boards, jointly or severally contract loans, credits, and other forms of indebtedness for purposes mutually beneficial to them.

Section 41. Loans from Funds Secured by the National Government from Foreign Sources.-

(a) The President or his duly authorized representative may, through any government financial or other lending institutions, relend to any cooperative the proceeds of loans contracted with the foreign financial institutions or other international funding agencies for the purpose of financing the construction, installation, improvement, expansion, operation, or maintenance its lines and

facilities, the acquisition of real property, and the implementation of other capital expenditure projects, subject to such terms and conditions as may be agreed upon by the President and the cooperative. The proceeds from such loans shall accrue directly to the cooperative concerned.

(b) The President may likewise authorize the lending to the cooperatives the proceeds of grants secured from foreign sources, subject to the provisions of existing laws and the applicable grant agreement.

CHAPTER V.- CONSUMER'S FUND FOR SOCIAL AMELIORATION

Section 42. Consumer's Social Amelioration Fund.- The cooperatives are hereby authorized to set up a consumer's social amelioration fund which can be used in times of calamities affecting its coverage. The fund shall be sustained through the inclusion of the amount of P1.00 per connection per month.

The fund shall be held by the cooperative in trust and shall be expended only to finance for the immediate relief/rehabilitation of the consumers affected by the occurrence of a calamity or force majeure. The Cooperatives may jointly set up a common fund for the purpose mentioned above.

Guidelines for the establishment and use of the Fund shall be formulated by the cooperatives within sixty (60) days from effectivity hereof.

CHAPTER VI.- LEAGUE OF ELECTRIC COOPERATIVES

Section 43.- Purposes.- For purposes commonly beneficial to its operation, sustainability, and ventilating issues affecting the cooperatives and securing solutions through appropriate means, cooperatives may organize and create a League of Electric Cooperatives.

The League may set up regional, inter-regional and national chapters to conveniently oversee the needs of the members of the league.

Section 44.- Representation.- Every cooperative shall be represented in the league by the President or in his absence by the Vice-President or the General Manager, who shall attend all meetings and participate in the deliberations of the league.

Section 45.- Powers, Functions and duties of the League.- The League of the Cooperatives shall:

- (a) Formulate and implement policies, programs and projects of the cooperatives;
- (b) Promote local autonomy of the cooperatives;

- (c) Adopt measures for the promotion of the welfare of the cooperatives, is officials and employees;
- (d) Encourage consumers participation in order to promote united and concerted action for the attainment of nationwide cooperatives' development goals;
- (e) Serve as forum for crystallizing and expressing ideas, seeking the necessary assistance of the government in the promotion of the welfare of the cooperatives;
- (f) Exercise such other powers and perform such other duties and functions as the league may prescribe for the welfare of the cooperatives.

CHAPTER VII.- FINAL PROVISIONS

Section 46.- Repealing Clause.- (a) Sections 15 up to 16, 17, 18, 19, 20, 21, 22, 23 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, of Presidential Decree No. 269 are hereby repealed, amended or modified, (b) Sections 2, 5, 6, 7 and 8 of Presidential Decree No. 1645 are hereby repealed, amended or modified; (c) Section 193 of R.A 7160 is hereby amended or modified in part in so far as the electric cooperatives are concerned and in so far as it is inconsistent with the provisions of this Act; (d) Republic Act 10531 is hereby repealed, amended and modified in so far as its provisions are inconsistent with the provisions of this Act; (e) All general and special laws, acts, decree, executive orders, proclamations and administrative regulations, or part or parts thereof which are inconsistent with any of the provisions of this Act are hereby repealed or modified accordingly.

Section 47.- Separability Clause.- If, for any reasons, any part or provision of this Act shall be held to be unconstitutional or invalid, other parts or provisions hereof which are not affected thereby shall continue to be in full force and effect.

Section 48.- This Act shall take effect on the fifteenth (15th) day following its publication in at least two (2) newspapers of general circulation.

APPROVED.