

CONFORMED COPY

LOAN NUMBER 4887-PH

Loan Agreement

(Bicol Power Restoration Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

NATIONAL POWER CORPORATION

Dated February 28, 2008

LOAN AGREEMENT

Agreement dated February 28, 2008, between NATIONAL POWER CORPORATION (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of twelve million nine hundred forty thousand Dollars (\$12,940,000) (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty (60) days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article V of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following: EPIRA, or any of the Project Implementing Entity's Constitutive Documents has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
- 4.02. The Additional Event of Acceleration consists of: Any event specified in Section 4.01 of this Agreement occurs.

ARTICLE V- EFFECTIVENESS

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is the President of the Borrower.
- 6.02. The Borrower's Address is:

President
National Power Corporation
Quezon Avenue, Corner BIR Road
Diliman, Quezon City
Metro Manila, Philippines

Cable address:	Facsimile:
NAPOCOR Manila	(632) 924-5230

6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Manila, Republic of the Philippines, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Bert Hofman

Authorized Representative

NATIONAL POWER CORPORATION

By /s/ Margarito B. Teves

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to support the stabilization of power supply in the Bicol region by replacing or repairing critical electricity transmission infrastructure damaged by typhoons in 2006.

The Project consists of the following parts:

1. Restoration and Strengthening of the Bicol Transmission System

- (a) Supply and installation of 56 steel transmission towers and line materials for the typhoon- damaged portions of the double circuit Naga-Labo 230 kV 1-795MCM ACSR transmission line.
- (b) Supply and installation of 32 steel transmission towers and line materials for the typhoon-damaged portions of the double circuit Tiwi Plant C-Naga 230 kV 2-795MCM ACSR transmission line.
- (c) Supply and installation of 30 steel transmission towers and line materials for the typhoon-damaged portions of the double circuit 230 kV ACSR transmission lines in three sections of the transmission system (i) Tiwi Plant A-Daraga (1-795MCM); (ii) Naga-Daraga (1-795MCM); and (iii) Bacman-Daraga (2-795MCM).

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Borrower shall establish and maintain until completion of the Project, a project coordinator to manage the Project, assisted by qualified and experienced staff with terms of reference and in adequate numbers, in each case acceptable to the Bank, and provided at all times with adequate funds and other resources as shall be necessary to accomplish its functions, responsibilities and objectives.
2. The Borrower shall: (a) ensure that the Project Implementing Entity shall adopt a Project Management Manual, acceptable to the Bank; (b) ensure that the Project Implementing Entity shall carry out the Project in accordance with the Project Management Manual; and (c) not waive, amend or abrogate, or allow to be amended, waived or abrogated, any provision of the Project Management Manual or any component thereof, without the prior consent of the Bank.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project by the Project Implementing Entity, the Borrower shall make the proceeds of the Loan available to the Project Implementing Entity as a grant under a Subsidiary Agreement among the Borrower, the Project Implementing Entity and PSALM, acceptable to the Bank.
2. The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Safeguards

1. The Borrower shall ensure that the Project Implementing Entity shall take all measures and actions set out in the Environmental Impact and Management Plan for the elimination or offsetting of adverse environmental impacts under the Project. The Borrower shall ensure that the Project Implementing Entity shall

include in each Project Report provided for in paragraph 1 of Section II(A) of this Schedule 2, a summary of any environmental issues encountered and proposed mitigation measures developed and/or implemented during the period covered in such Project Report.

2. In carrying out the Project, the Borrower shall ensure that the Project Implementing Entity shall apply the Land Acquisition and Resettlement Plan, including:
 - (a) taking all appropriate measures to avoid or minimize the acquisition of land or assets of people and to avoid the displacement of such people;
 - (b) where the acquisition of land or assets or the displacement of residents is unavoidable for a Project activity, ensuring that all Displaced Persons thereunder shall have been compensated and provided with resettlement and rehabilitation measures in accordance with the Land Acquisition and Resettlement Plan prior to the implementation of such Project activity;
 - (c) maintaining operational procedures adequate to enable it to monitor and evaluate on a regular basis, in accordance with indicators acceptable to the Bank, the carrying out of the Land Acquisition and Resettlement Plan;
 - (d) submitting all changes, amendments and waivers to the Land Acquisition and Resettlement Plan to the Bank for no-objection; and
 - (e) preparing and furnishing to the Bank, as part of the Project Report provided for in paragraph 1 of Section II(A) of this Schedule 2, a report, of such scope and in such detail as the Bank shall reasonably request, on the monitoring and evaluation activities carried out pursuant to subparagraph (c) above, including compensation, together with any additional measures proposed to further the progress in the carrying out of the Land Acquisition and Resettlement Plan; and promptly take all such measures, taking into account the comments and the views of the Bank thereon.

3. In carrying out the Project, the Borrower shall ensure that the Project Implementing Entity shall, as set out in the Land Acquisition and Resettlement Plan, through a process of informed consultation and participation, involve concerned Indigenous Peoples in the design and implementation of the Project so as to avoid, or if not possible, minimize adverse effects on Indigenous Peoples.

Section II. Project Monitoring Reporting and Evaluation**A. Project Reports**

1. The Borrower shall cause the Project Implementing Entity to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators set forth below in Annex 1 to this Schedule 2. Each Project Report shall cover the period of one(1) calendar quarter, and shall be furnished to the Bank not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish, or cause the Project Implementing Entity to prepare and furnish, to the Bank not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements for the Project and its entity financial statements (with the consolidated financial statements of the Project Implementing Entity) audited in accordance with the provisions of Section 5.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.
4. Without limitation on the foregoing paragraph 3, until such time as the Bank shall otherwise agree in writing, the Borrower shall ensure that the Project Implementing Entity shall include the Project in the scope of work for its internal audit using procedures acceptable to the Bank. Except as the Bank shall otherwise agree in writing, the Borrower shall ensure that the Project Implementing Entity shall undertake such internal audit once in each calendar semester during Project implementation and shall submit a copy of the audit report to the Bank within thirty (30) days after the end of each calendar semester.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines.

B. Particular Methods of Procurement of Goods and Works

1. **National Competitive Bidding.** Goods and works shall be procured under contracts awarded on the basis of National Competitive Bidding subject to the additional provisions set out in Annex 2 to this Schedule 2.

C. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods and works (a) For Part 1(a) of the Project (b) For Part 1(b) of the Project (c) For Part 1(c) of the Project	4,759,363 3,973,666 2,994,244	100% of Foreign Expenditures and 66% of Local Expenditures for goods and works
(2) Unallocated	1,212,727	
TOTAL AMOUNT	12,940,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$10,350,000 equivalent may be made for payments made prior to this date but on or after April 1, 2007, for Eligible Expenditures.
2. The Closing Date is July 30, 2008.

ANNEX 1 TO SCHEDULE 2
Performance Indicators

Project Development Objective (PDO)	Project Outcome Indicators
The objective of the Project is to support the stabilization of power supply in the Bicol region by replacing or repairing critical electricity transmission infrastructure damaged by typhoons in 2006.	<p>Re-establishment of remaining 50 GWh unsupplied energy in the Bicol region by February 2008.</p> <p>Improved power system reliability in Bicol evidenced by a reduction in the Luzon SISI minutes lost to 10 minutes.*</p>
Intermediate Outcomes	Intermediate Outcome Indicators
<p>Part I - Transmission System Restoration</p> <p>The transmission system with the capability to deliver an additional 50 GWh of electricity.</p>	118 new 230-kV towers in place by March, 2008.
Outputs	Output Indicators
<p>Part I - Transmission System Restoration</p> <p>Procurement of 118 230-kV towers and related materials.</p> <p>.</p>	<p>Accelerated contracting for 230 –kV towers with tendering beginning April 2007.</p> <p>.</p>

* The SISI (System Interruption Severity Index) is defined by the Energy Regulatory Commission as the total delivery point unserved energy (in MWh/60) divided by System Peak load (see ERC Case 2005-041RC June 2006 Regulatory Reset for TransCo Final Determination Section 8.6 ERC Analysis and Decision).

ANNEX 2 TO SCHEDULE 2**Special Procedures for National Competitive Bidding
in the Republic of the Philippines**

- A. National Competitive Bidding acceptable to the Bank (Requirements in addition to Philippines Bidding Documents, PBD):
1. Eligibility screening shall not be applied. However, bids that do not contain any of the following documents will not pass the documentary compliance check: (a) evidence of the required financial, technical or production capability; (b) audited financial statements; (c) credit line, or cash deposit certificate; (d) bid security; and (e) authority of the bid signatory.
 2. In the case of prequalification, if any bidder is denied access to the bidding process for reasons unrelated to its financial and technical qualifications to perform the contract, prior concurrence of the Bank shall be sought.
 3. A ceiling may be applied to bid prices, with prior concurrence of the Bank in advance of bidding. However, the Approved Budget Estimate may be disclosed in the advertisement or in the bidding documents.
 4. Domestic or regional preferences will not be applied in the evaluation of bids, and other preferences in effect in the Philippines will not be used except with the prior concurrence of the Bank.
 5. Suppliers and contractors will not be required to purchase only local goods or supplies or materials.
 6. In case of contracts for prior review, modifications exceeding fifteen percent (15%) of contract amount and material changes in the conditions during implementation require prior Bank concurrence.
 7. Foreign suppliers and contractors shall be allowed to participate, if interested, without first being required to associate with, or enter into joint venture with, local firms. Moreover, foreign bidders shall be allowed to bid, even without registration, licensing, and other government authorizations, leaving these requirements for after award and before signing of contract.
 8. For works contract, the experience qualification requirement shall be: (a) at least one (1) previous contract at eighty percent (80%) of the estimated cost of the contract being procured; and (b) an annual turnover from all works averaged over the last three (3) years equal to one hundred percent (100%) of the estimated cost of the contract being procured.
- B. Conditions for the Application of the ABC (Approved Budget for the Contract) as Contract Ceiling under Bank Loan Financing:
1. Bidding Documents are obtainable free of charge on a freely accessible website. If payment of Bidding Documents is required by law, payment could be made upon the

submission of Bids. Failure to pay for the Bidding Documents prior or upon submission of the Bids should not lead to the automatic rejection of the Bids.

2. The implementing agency has procedures in place to ensure that the ABC is based on the Engineer's Estimate and that the Estimate reflects the quality, supervision and risk factors associated with the type of job proposed.
3. The implementing agency has trained cost estimators on estimating prices and analyzing Bid variances.
4. The implementing agency has established a system to monitor and report Bid prices relative to the ABC and Engineer's Estimate.

SCHEDULE 3**Amortization Schedule**

<u>Principal Payment Date</u>	<u>Principal Amount of the Loan Payable (Expressed in Dollars)</u>
April 15, 2013	340,000
October 15, 2013	350,000
April 15, 2014	360,000
October 15, 2014	370,000
April 15, 2015	380,000
October 15, 2015	395,000
April 15, 2016	405,000
October 15, 2016	415,000
April 15, 2017	430,000
October 15, 2017	440,000
April 15, 2018	455,000
October 15, 2018	465,000
April 15, 2019	480,000
October 15, 2019	495,000
April 15, 2020	510,000
October 15, 2020	520,000
April 15, 2021	535,000
October 15, 2021	555,000
April 15, 2022	570,000
October 15, 2022	585,000
April 15, 2023	600,000
October 15, 2023	620,000
April 15, 2024	635,000
October 15, 2024	655,000
April 15, 2025	675,000
October 15, 2025	700,000

APPENDIX**I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 4 to this Agreement.
3. “Displaced Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means, collectively, all such Displaced Persons.
4. “Environmental Impact and Management Plan” means the plan, dated July 12, 2007, adopted by the Borrower and the Project Implementing Entity and included in the Project Management Manual, acceptable to the Bank, for screening, managing and monitoring environmental and social impacts under the Project, as such plan may be amended from time to time with the prior agreement of the Bank.
5. “EPIRA” means the Republic of the Philippines Act No. 9136, also known as the Electric Power Industry Reform Act of 2001, as may be amended from time to time.
6. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007).
7. “Guarantee Agreement”, for the purposes of and within the meaning of the General Conditions, means the agreement, dated the date hereof, between the Guarantor and the Bank providing for the guarantee of the Loan, as such agreement may be amended from time to time.
8. “Guarantor” means, for the purposes of and within the meaning of the General Conditions, the Republic of the Philippines, which is a party to the Guarantee Agreement.
9. “Land Acquisition and Resettlement Plan” means the plan, dated June 29, 2007, adopted by the Borrower and the Project Implementing Entity and included in the

Project Management Manual, acceptable to the Bank, for the compensation, rehabilitation and resettlement assistance to Displaced Persons, as such plan may be amended from time to time with the prior agreement of the Bank

10. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
11. “Procurement Plan” means the Project Implementing Entity’s procurement plan for the Project, dated January 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
12. “Project Agreement”, for the purposes of and within the meaning of the General Conditions, means the agreement, dated the date hereof, between the Project Implementing Entity and the Bank, as such agreement may be amended from time to time.
13. “Project Implementing Entity” means, for the purposes of and within the meaning of the General Conditions, TransCo, which is responsible for implementation of the Project.
14. “Project Implementing Entity’s Constitutive Documents” means the articles of incorporation of the Project Implementing Entity as authorized by Section 8 of EPIRA.
15. “Project Management Manual” means the manual dated October 23, 2007 setting out the implementation and management arrangements for the Project including: (i) implementation arrangements; (ii) the procurement procedures set forth in Section III of Schedule 2 to this Agreement and standard procurement documentation; (iii) reporting requirements, financial management procedures, expenditure verification procedures, and audit arrangements and procedures consistent with those set forth in Section II of Schedule 2 to this Agreement; (iv) monitoring and evaluation criteria including the Project Performance Indicators as set forth in Annex 1 to Schedule 2 to this Agreement; (v) the Environmental Impact and Management Plans; and (vi) the Land Acquisition and Resettlement Plan.
16. “PSALM” means the Power Sector Assets and Liabilities Management Corporation, established pursuant to Section 49 of EPIRA.
17. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement, to be entered into among the Borrower, the Project

Implementing Entity and PSALM, pursuant to which the Borrower shall make the proceeds of the Loan available to the Project Implementing Entity.

18. "TransCo" means the Project Implementing Entity, National Transmission Corporation, the wholly owned subsidiary corporation of PSALM, established pursuant to Section 8 of EPIRA and the Project Implementing Entity's Constitutive Documents.