

Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



IN THE MATTER OF THE APPLICATION FOR APPROVAL OF APPLICANT'S (1) BUSINESS SEPARATION AND UNBUNDLING PLAN (BSUP); AND (2) ACCOUNTING AND COST ALLOCATION MANUAL (ACAM) IN ACCORDANCE WITH THE PROVISIONS OF SECTION 36 OF R.A. 9136 AND RULE 10 OF ITS IMPLEMENTING RULES AND REGULATIONS,

ERC CASE NO. 2017-009 MC

**KEPCO SPC POWER CORPORATION (KSPC),
Applicant.**
X-----X

D O C K E T E D
Date: AUG 07 2017
By: W

ORDER

On 16 June 2017, KEPCO SPC Power Corporation (KSPC) filed an *Application* dated 29 May 2017 seeking the Commission's approval of its Business Separation and Unbundling Plan (BSUP) and Accounting and Cost Allocation Manual (ACAM) in accordance with the provisions of Section 36 of R.A. 9136 and Rule 10 of its Implementing Rules and Regulations.

KSPC alleged the following in its *Application*:

THE APPLICANT

1. KSPC is a generation company duly authorized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office address at the 7th Floor of the Cebu Holdings Center, Cebu Business Park, Cebu City. Copies of KSPC's Certificate of Registration, Articles of Incorporation with By Laws, General Information Sheet, and the ERC

Certificate of Compliance are attached hereto as **Annexes "A," "B," "C," and "D,"** respectively.

2. KSPC is a holder of Retail Electricity Supplier License No. RES – 10-2016-008, approved on October 18, 2016. Copy of KSPC's RES License is attached hereto as **Annex "E"**.
3. Applicant may be served with orders and other processes through the undersigned counsels.

NATURE OF THE APPLICATION

4. In compliance with the provisions of Section 36 of R.A. 9136, and Rule 10, Section 3 (b) of its implementing Rules and Regulations (IRR), which requires electric power industry participants to structurally and functionally unbundle the business activities as between generation, transmission, distribution and supply, and in compliance to the terms and conditions of the Retail Electricity Supplier's License issued by this Honorable Commission to Applicant KSPC, it herein submits this Business Separation and Unbundling Plan (BSUP) and the Accounting and Cost Allocation Manual (ACAM), for the approval of this Honorable Commission.

COMPLIANCE WITH PRE-FILING REQUIREMENTS

5. In compliance with Section 2, Rule 6 of the ERC Rules of Practice and Procedure, this being a miscellaneous application, applicant shall furnish the respective legislative bodies of the Provincial Government of Cebu and the City Government of Cebu, where applicant KSPC office is principally located, with a complete copy of the present application and all its annexes and accompanying documents.

Copies of the certificates from the Presiding Officer or authorized representative of the legislative bodies of Cebu City, as well as the Province of Cebu, will be attached as **Annexes "F", and "G,"** respectively.

6. Furthermore, applicant shall cause the publication of the present application in a newspaper of general circulation within its franchise area or area where it principally operates.

Copies of the corresponding Affidavit of Publication and the newspaper will be attached as **Annexes "H" and "I",** respectively.

7. Prior to the filing of this application, a pre-filing conference will be conducted with the concerned staff of the Commission pursuant to Section 4 of Rule 6, and for purposes of determining completeness of the supporting documents attached to the application.

BACKGROUND

8. KSPC's application for Retail Electricity Supplier License was approved by this Honorable Commission on October 18, 2016. Pursuant to the Terms and Conditions of the Retail Electricity Supplier License, KSPC was mandated to submit to the Commission its Business Separation and Unbundling Plan (BSUP) at least ninety (90) days from issuance of its RES License.
9. Due to time constraint, KSPC requested for additional time to comply with the requirements of the filing of the BSUP. In view of the request, KSPC was granted extension until June 30, 2017 to comply the said requirement.

Copy of the ERC Letter is here attached as **Annex "J"**.

10. Through this Application, KSPC respectfully submits this Business Separation and Unbundling Plan (BSUP) and the Accounting Cost Allocation Manual (ACAM), for the approval of this Honorable Commission.

KSPC BSUP and ACAM

11. KSPC BSUP consists of six (6) sections as prescribed in the BSUP Filing Package, as follows:

SECTION I. CURRENT STRUCTURE

KEPCO SPC Power Corporation (KSPC or the Company) was registered with the Securities and Exchange Commission (SEC) on June 22, 2005 with SEC registration number CS200510755. The Company was incorporated to address the increasing electricity demand and imminent power shortage in 2010. To address this, KEPCO Philippines Holdings, Inc. (KPHI) took on the construction of the 200 MW Circulation Fluidized Bed Combustion (CFBC) Power Plant in the City of Naga, Cebu. The project was implemented by KSPC, a joint venture of KEPCO Philippines and SPC Power Corporation.

KSPC is responsible for the whole construction, operation, and maintenance of the plant, including fuel supply, among others, without any Philippine government guarantees. The Company is a merchant power plant, characterized by the execution of Power Sales Contracts (PSCs) with distribution utilities and electric cooperatives.

The Company's registered office address is located at 7th Floor, Cebu Holdings Center, Cebu Business Park, Cebu City.

CORPORATE STRUCTURE

KSPC is 60%-owned by KEPCO Philippines Holdings, Inc. and 40%-owned by SPC Power Corporation (*Annex A¹ BSUP, KSPC Group Corporation Structure*).

KEPCO Philippines Holdings, Inc. (KPHI)	SEC Registration No.: CS200520464
KPHI was registered with the SEC on December 15, 2005 primarily to hold potential investments.	

SPC Power Corporation (SPC)	SEC Registration No.: AS094-002365
Formerly known as Salcon Power Corporation, SPC is engaged in various business activities within the Philippines that include, among others, the development, construction, rehabilitation, maintenance, management and operation of power generating plants, electricity distribution and related facilities.	

SECTION II. DETAILS OF BUSINESS SEGMENTS

BUSINESS SEGMENTS

The Company has two (2) business segments which include:

1. Generation of Electricity and Provision of Ancillary Services; and,
2. Supply Services.

Generation of Electricity and Provision of Ancillary Services (Generation)

This segment pertains to the production of electricity and the provision of ancillary services using the generation assets. Ancillary services are essential to facilitate orderly trading in electricity and ensure that electricity supplies are of an acceptable quality.

Supply Services (Supply)

This comprises the sale of electricity by a generating company, licensed as RES, to End-users in the contestable market. It includes the following:

- a. The billing, collection and the provision of customer services to such End-users in their capacity as electricity consumers or to such other customers in their capacity as purchasers of electricity;

¹ Herein attached and marked as Annex "K".

- b. Energy trading (including the purchase of electricity) undertaken in connection with the sale of electricity to End-users who are included in the Contestable Market; and,
- c. The sale of electricity to End-users who are included in the Contestable Market.

SEGREGATION OF PERSONNEL TO BUSINESS SEGMENTS

The Company has 161 personnel who will service a specific or multiple business segments summarized as follows:

Department	Total Number of Personnel	Number of Personnel Servicing	
		Generation	Supply
Departments engaged in a specific segment:			
Operations	64	64	–
Turbine	5	5	–
Boiler and Electrical	13	13	–
Instrumentation and Control	11	11	–
Environmental and Chemical	18	18	–
Total Personnel	111	111	–

Department	Total Number of Personnel
Departments engaged in both segments:	
Office of the President	1
Human Resources and General and Affairs	15
Marketing	10
Contracts	9
Community and Public Relations	3
Planning and Finance	9
Legal	1
Audit	2
Total Personnel	50

All personnel are properly identified to a specific business segment in which they are engaged with. If a person serves multiple business segments (**See Annex B² BSUP, Business Segment Activities**), the cost of such personnel is allocated in accordance with the allocation methodology adopted by the

² Supra.

Company (See Part VII³, Accounting and Cost Allocation Manual).

DESCRIPTION OF ASSETS

As a policy, all assets acquired by the Company are tagged and identified to the specific business segment where these will be utilized. This is based on the purpose to which these assets were acquired, installed, constructed and their use in the over-all operations of the Company. Assets acquired for use by multiple segments are allocated as follows:

Account	Description	Business Segments	
		Generation	Supply
Property, Plant and Equipment	This includes building, office equipment, vehicles, furniture and fixtures, leasehold and land improvements, machineries, heavy equipment and construction in progress which have useful lives ranging from five to twenty-five years.	X	X
Other noncurrent assets	This account includes security deposits for leases, prepaid rent- net of current portion and others.	X	X
Other current assets	This includes prepaid real property tax, prepaid rent, insurance premiums paid in advance, advance payments made to suppliers and other current assets.	X	X
Inventories	This account pertains to coal, light oil and limestone inventories. Included also are spare parts for use in the operations of the Company.	X	N/A
Trade and other receivables	This represents outstanding billings for energy fees arising from deliver of electric power and energy from the following : - Generation - Supply	X	X
Cash and cash equivalents	This includes peso and dollar denominated accounts for collections and disbursements pertaining to its operations and other activities. Included also is a reserved account for dividends and subordinated principal & internal distributions.	X	X

³ Supra.

SECTION III. ACCOUNTING SEPARATION

As required by Rule 10, Section 1 of the Implementing Rules and Regulations (IRR) of R.A. No. 9136 or otherwise known as the "Electric Power Industry Reform Act of 2001" (EPIRA), KSPC has prepared an Accounting and Cost Allocation Manual (ACAM) to be adopted in the preparation of the Accounting Separation Statements (*See Annex C⁴, KSPC Accounting and Cost Allocation Manual*).

The Company has prepared an express undertaking complying with the code of conduct promulgated by the ERC to regulate matters relating to end-users. This express undertaking is in compliance with the following articles in the Business Separation Guidelines (BSG), as amended:

Article	Provision
II	<p><u>General Principles for Accounting Separation</u></p> <p>The Accounting Separation Statements should be prepared in accordance with the ERC approved ACAM of the Company. This is notwithstanding its compliance with the general accepted accounting principles (Philippine Financial Reporting Standards or PFRS).</p> <p>The statements should be able to report all material items that will result in financial information that is relevant, reliable and that reflects the substance of the underlying transactions and events of the Company.</p>
III	<p><u>Information Requirements for Accounting Separation</u></p> <p>The Company should maintain separate accounts for each business segment or ensure that revenues, costs, assets and liabilities are separately identifiable in the books of the Company.</p>
IV	<p><u>Business Segments</u></p> <p>The Company's business segments should be separated as follows: Generation of Electricity and Provision of Ancillary Services and Supply Services.</p>

⁴ Supra.

(See Annex D⁵, Express Undertaking on the Compliance with Articles II, III and IV of the BSG, as amended)

SECTION IV. DESCRIPTION OF SEPARATION

KSPC operates as a single juridical entity in the conduct of its business operations which are divided into the following business segments:

- Generation of Electricity and Provision of Ancillary Services
- Supply Services

As a policy, the Company identifies and records its business activities based on the foregoing business segments. Books of accounts are maintained to ensure that activities per business segments are separately recorded. If business activities cover multiple business segments, allocation methodologies and policies are adopted by the Company to ensure that assets, liabilities, revenues and expenses from the business activities are reasonably allocated to specific business segments.

Further, KSPC has expressly undertaken its compliance with the provisions of Article V of the BSG, as amended, requiring the proper use of End-user information of a distribution utility (*See Annex E⁶, Express Undertaking on the Compliance with Article V of the BSG, as amended*).

SECTION V. MILESTONES AND HIGHLIGHTS

KSPC commits to implement the principles and allocation methodologies as written in the ACAM. The Company will enact the following after the approval from ERC:

Week 1: Accounting system update to ensure that the cost identification and allocation methodologies as described in the ACAM are properly implemented

Week 2: Orientation to all employees involved on the BSUP

Week 3: Seminars and workshops for its employees to enhance their knowledge of the activities of each business segment

⁵ supra

⁶ Supra.

Week 4: Trainings of BSUP personnel involved in its implementation

KSPC will also continuously improve on its business processes to ensure proper monitoring or allocation of business activities per business segment.

SECTION VI. CODE OF CONDUCT

KSPC undertakes to develop a plan to comply with the Code of Conduct for Competitive Retail Market Participants as promulgated by the ERC (*See Annex F7, Express Undertaking on the Compliance with the Code of Conduct*).

12. The Business Separation and Unbundling Plan and the Accounting Cost Allocation Manual (ACAM) are attached in this Application and marked as **Annex "K"**, which copy is hereby adopted and incorporated in this instant application. It shall fully implement this Plan upon approval by this Honorable Commission.
13. Copy of the Secretary Certificate executed by the Corporate Secretary of KSPC authorizing this Application is here attached as **Annex "L"**.

PRAYER

WHEREFORE, premises considered, it is most respectfully prayed of the Honorable Commission that after due notice and hearing, a DECISION be issued approving the Business Separation and Unbundling Plan (BSUP) and the Accounting Cost Allocation Manual (ACAM) of KSPC.

Other reliefs just and equitable are likewise prayed for.

Finding the said *Application* sufficient in substance with the required fees having been paid, the same is hereby set for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **05 September 2017 (Tuesday) at ten o'clock in the morning (10:00 A.M.), at the ERC Hearing Room, 15th Floor Pacific Center Building, San Miguel Avenue, Pasig City.**

Accordingly, KSPC is hereby directed to:

- 1) Cause the publication of the attached Notice of Public Hearing at least once (1x) in a newspaper of nationwide

⁷ Supra.

circulation in the Philippines at its own expense, the date of the publication to be made not later than ten (10) days before the date of the scheduled initial hearing;

- 2) Furnish the Offices of the City Mayor, and the Local Government Unit (LGU) legislative body of the place where Applicant's principal office is located with copies of this Order and the attached Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards;
- 3) Furnish the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress with copies of the *Application*, and this Order and the attached Notice of Public Hearing. They are hereby requested, if they so desire to send their duly authorized representatives at the scheduled hearing; and
- 4) Furnish all those making requests with copies of the *Application* and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, Applicant must submit to the Commission its written compliance with the aforementioned jurisdictional requirements attaching therewith, methodically arranged and duly marked the following:

- 1) The evidence of publication of the attached Notice of Public Hearing consisting of affidavit of the Editor or Business Manager of the newspaper where the said Notice of Public Hearing was published, and the complete issue of the said newspaper;
- 2) The evidence of actual posting of this Order and the attached Notice of Public Hearing consisting of certifications issued to that effect, signed by the aforementioned Mayor, and LGU legislative body or their duly authorized representatives, bearing the seals of their offices;
- 3) The evidence of receipt of copies of the *Application*, and this Order and the attached Notice of Public Hearing by the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress;

- 4) The evidence of receipt of copies of the *Application* and its attachments by all those making requests therefor, if any; and
- 5) Such other proof of compliance with the requirements of the Commission.

Applicant and all interested parties are also required to submit, at least five (5) days before the date of initial hearing and Pre-Trial Conference, their respective Pre-Trial Briefs containing, among others:

- 1) A summary of admitted facts and proposed stipulation of facts;
- 2) The issues to be tried or resolved;
- 3) The documents or exhibits to be presented, stating the purposes and proposed markings therefor; and
- 4) The number and names of the witnesses, with their written testimonies in a Judicial Affidavit form attached to the Pre-trial Brief.

Failure of Applicant to submit the required Pre-Trial Brief and Judicial Affidavits of its witnesses within the prescribed period shall be a ground for cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from the said date of cancellation.

KSPC must also be prepared to make an expository presentation of the instant *Application*, aided by whatever communication medium that it may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the *Application* is all about and the reasons and justifications being cited in support thereof.

SO ORDERED.

Pasig City, 26 July 2017.

FOR AND BY AUTHORITY
OF THE COMMISSION:



ALFREDO J. NON
Officer-in-Charge of ERC

LS: *JKP AW*
JHN/LS/APV

Copy Furnished:

1. Attys. Julius Christian Reyes, Rhee Christopher Vaño, and Gamaliel Nardo
Counsel for Applicant KSPC
7th Floor, Cebu Holdings Center
Cebu Business Park, Cebu City
2. Office of the City Mayor
Cebu City
3. Office of the Local Government Unit (LGU) legislative body
Cebu City
4. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village, Makati City
5. Commission on Audit
Commonwealth Avenue, Quezon City
6. Senate Committee on Energy
GSIS Bldg. Roxas Blvd., Pasay City
7. House Committee on Energy
Batasan Hills, Quezon City
8. Philippine Chamber of Commerce and Industry (PCCI)
3rd Floor, Chamber and Industry Plaza (CIP), 1030 Campus Avenue corner Park Avenue, McKinley
Town Center, Fort Bonifacio, Taguig City
9. Regulatory Operations Service
17th Floor Pacific Center, San Miguel Avenue, Pasig City