

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



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF BUSINESS
SEPARATION AND
UNBUNDLING PLAN (BSUP)
PURSUANT TO SECTION 36
OF REPUBLIC ACT 9136
AND RULE 10 OF ITS
IMPLEMENTING RULES
AND REGULATIONS,**

ERC CASE NO. 2016-038 MC

**SORSOGON I ELECTRIC
COOPERATIVE, INC.
SORECO I),**

Applicant.

X-----X

D O C K E T E D
Date: JAN 04 2018
By: [Signature]

ORDER

On 9 December 2016, Sorsogon I Electric Cooperative, Inc. (SORECO) filed an *Application* dated 1 December 2016 (*Application*) seeking the Commission's approval of its Business Separation and Unbundling Plan (BSUP) pursuant to Section 36 of Republic Act 9136 and Rule 10 of its Implementing Rules And Regulations.

SORECO I alleged the following in its *Application*:

1. Applicant is an electric cooperative duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal offices at Brgy. Gulanggulang, Irosin, Sorsogon;
2. It is the holder of an exclusive franchise issued by the National Electrification Administration (NEA), to operate an electric light and power distribution service in the municipalities of Irosin, Bulan, Matnog, Sta. Magdalena, Magallanes, Juban, Bulusan, and Casiguran Province of Sorsogon;
3. Section 36 of Republic Act No. 9136 otherwise known as the Electric Power Industry Reform Act of 2001 or "EPIRA", provides in part that " *Any electric power industry participant shall functionally and structurally unbundle its*

business activities and rates in accordance with the sectors as identified in Section 5 hereof. The ERC shall ensure full compliance with this provision.”

4. Pursuant to the said mandate of the EPIRA as well as Rule 10 of its Implementing Rules and Regulations (IRR), the Honorable Commission promulgated Resolution No. 49, Series of 2006 otherwise known as “*Business Separation Guidelines, as Amended*” as well as Resolution No. 07, Series of 2012 , Adopting the Accounting and Cost Allocation Manual (ACAM) for Electric Cooperatives;
5. Pursuant to and in compliance with the requirements of the foregoing law, rules and resolutions, SORECO I is submitting herewith for the Honorable Commission’s evaluation and approval, its proposed **BUSINESS SEPARATION AND UNBUNDLING PLAN (BSUP)** for the business separation and structural and functional unbundling of its business activities, with the end in view of separating its distribution activities into appropriate business segments and to have a clear separation of operations and accounts between its regulated and non-regulated activities.
6. SORECO I’s proposed BSUP is composed of and divided into the following sections, to wit:

1. **DETAILS OF CURRENT STRUCTURE**

- a) **Corporate Profile**

SORECO I is a non-stock, non-profit electric cooperative whose application for registration and incorporation with NEA was approved on February 13, 1973. The Provisional Certificate of Franchise and the Certificate of Franchise was approved on June 22, 1977 and August 22, 1979, respectively, that covers eight municipalities within the Province of Sorsogon, namely Irosin, Bulan, Juban, Casiguran, Matnog, Magallanes, Sta. Magdalena and Bulusan;

SORECO I’s main office is located in Brgy. Gulang-gulang, Irosin, Sorsogon. There are eight (8) Service Centers located in every district. They serve as collection centers in their respective municipalities.

Status of Electrification as of December 31, 2015:
Total number of Barangays – 253; Percent of energization – 100%; Total number of Sitios – 1,470; Percent of energization of Sitios - 87%; Total potential consumers- 83,643; Total membership- 76,843; and house connections – 73,469.

Financial and Statistical Report as of December 31, 2015:

Active Consumer Accounts - 60,351; Residential consumers- 57,771; Low voltage consumers - 2,576; Higher voltage consumers - 4; Total kWh Sales - 39,824,074; Total Operating Revenue (PhP) - 357,153,679; Net Income(Loss)(PhP) - 11,862,453; Average System Rate (PhP) - 9.56; Power Purchase (MWH) - 43,137; Cost of Power (PhP) - 269,700,169; Average Power Rate/kWh (PhP) - 6.24; Total Assets (PhP) - 793,809,224; Collection Efficiency - 93.13%; Average System Loss - 13.61 %; Maximum Demand(kW) - 9,755; Load Factor - 32.79%; Power Factor - 97.19%; Number of employees (permanent =165;contractual=33) - 198; Ratio of consumer per employee - 388:1; Number of outside services employed - 15 and No. of substations - 2.

b) Corporate Structure

SORECO I's present organizational structure which has been existent since 1973 is divided into five (5) main departments briefly described as follows:

a. OFFICE OF THE GENERAL MANAGER (OGM)

The Office of the General Manager (OGM) is composed of the General Manager's Office and OGM Office staff.

b. FINANCE SERVICES DEPARTMENT (FSD)

Finance Services Department is composed of two divisions, the Accounting Division and the Cashiering Division.

c. INTERNAL AUDIT DEPARTMENT

Internal Audit Department is composed of internal auditor and financial and technical staff.

d. ADMINISTRATIVE AND CONSUMERS ACCOUNT DEPARTMENT

This department is composed of the Meter-reading/Collection Division and of the Billing Division.

e. MEMBER SERVICES DEPARTMENT (MSD)

Member Services Department (ISD) is composed of Consumers Services Division and Member Services Division.

f. TECHNICAL SERVICES DEPARTMENT (TSD)

Technical Services Department is composed of four divisions namely: System Loss Reduction Division, Planning & Monitoring Division, Material Management & Motorpool Division and Construction & Engineering Division.

c) Description of Functions

1. General Membership

Their general functions are to vote, to participate in the General and Special Meetings of members, to purchase from the Cooperative electric energy, to comply with and be bound by the Articles of Incorporation and By-Laws of the cooperative, any rules and regulations adopted by the Board and requirements of the National Electrification Administration, and to pay the membership fee.

2. Board of Directors

The Board is fully responsible to member-consumers for the management of internal affairs of the cooperative, for public relations and for relations with government agencies. Responsible for the formulation of policies needed for the efficient and effective operation of the cooperative.

3. Office of the General Manager

It is responsible for the over-all planning, organizing, directing, controlling and coordinating of all activities, programs and projects of the cooperative. The implementing arms of the Office of the General Manager are the different Departments and the District Offices.

4. Finance Services Department

This department is responsible for the rate analysis, billing of consumers, budget control and sound financial management of the cooperative.

5. Internal Audit Department

This department is responsible for the continuous examination/review and evaluation of the adequacy and effectiveness of the internal control for the protection of assets and properties of the cooperative.

6. Administrative and Consumers Account Department

This department is responsible in implementing meter reading, collection and disconnection policies

and procedures. Also, responsible for the prompt and accurate billing of consumers on a monthly basis and of maintaining adequate records of individual consumers account.

7. Member Services Department

This department handles the institutional development of the members of the cooperative, ensures the effectiveness and success of information campaigns on issues concerning cooperative operations, annual/membership meetings, district election meetings; responsible for the proper implementation of programs and projects on consumers' house wiring and proper use of electricity; special projects and BAPA operations.

8. Technical Services Department

This department is responsible for the planning, design, construction and system improvement of the cooperative's distribution system. Also, responsible for the warehousing of distribution line materials and equipments.

The specific functions per Plantilla Position are described in the BSUP.

d) Description of Current Process

1. Billing Process

The billing of member-consumers is performed by the Electronic Data Processing Section of the Billing Division. They are accountable for the downloading and uploading of the read data from the handheld meter reading gadgets and updating of consumers' data accounts. The distribution of statement of accounts is performed by the Meter-reader/collectors.

2. Collection Process

The meter-readers/collectors and tellers are responsible for this task through field collection and over the counter collection respectively. The meter-readers/collectors remit their collections to the teller assigned in their respective districts.

3. Process on Handling Consumer's Complaints

The complaint of the consumer is being entertained by the OIC of every District Service Center. If they can handle and settle the matter on their level, they will act on the same. However, if the issue raised is

not manageable on their level, the complaint will be endorsed to the CWD of the Institutional Services Department at the main office of the cooperative.

The Consumer Welfare Desk Officer is tasked to receive and answer queries and endorses complaints to the concerned department for appropriate action.

4. Disconnection Process

The Cooperative sees to it that a delinquent consumer is properly notified before he is disconnected of his electric service. The disconnection is executed by the cooperative's disconnection team.

5. Meter Reading Process

The Meter Readers are the accountable personnel in this process. They use their gadgets in meter reading, which is the Cipher Lab and some utilize the gadget developed by the coop using Android based OS. They are responsible for the accurate reading of kWh meters and ensure that meter readings are properly and accurately uploaded to the computers on specific schedules set by management.

6. New Service Connection Process

The membership and assessment of requirements prior to meter installation for new connection is performed first at the CWD of the Member Services Department.

It begins with a Pre-Membership Orientation Seminar to be attended by the applicant for new connection. Aside from house-wiring charges, new membership fee, notarial fee, payment for sketch form, bill deposit is being collected computed based on the estimated monthly consumption.

7. Reconnection Process

The disconnected member -consumers have the options either to go to their respective district's SORECO I Service Center or in the main office of the Cooperative.

The reconnection process for member-consumers whose services were disconnected due to non-payment of bills shall be made only upon payment of all unpaid bills, reconnection charge and acquisition of clearance required by management.

8. Capital Expenditures Requisition and Procurement Process

All Capital Expenditures (CapEx) are based on the CapEx Plan prepared by the Technical Working Group submitted to the Board of Directors for approval and to be included in the Annual Cash Operating Budget. In addition, the CapEx Plan is submitted to the Energy Regulatory Commission for approval on a specified regulatory period.

9. Non-Capital Expenditures Requisition and Procurement Process

All requisitions from the different departments are certified by the Budget Officer as to the availability of funds. Thereafter, Finance Manager recommends approval/disapproval of the requisition to the General Manager. The cooperative implements the proper procedure in the procurement of materials through canvass or sealed bid as provided for in the cooperative's Policy on the Conduct of Bidding

2. DETAILS OF BUSINESS SEGMENTS

In accordance with the provisions of the Business Separation Guidelines as amended, the SORECO I Electric Cooperative, Inc. (SORECO I) adopts four (4) out of the seven (7) distribution business segments. These are Distribution Services, Distribution Connection Services, Regulated Retail Services and Related Business. Below is the description of each business segment:

1. Distribution Services Business Segment

This segment has the following distribution services:

- a) The conveyance of electricity through SORECO I's Distribution System and the control and monitoring of electricity as it is conveyed through SORECO I's Distribution System (including any services that support such conveyance, control or monitoring or the safe operation of the Distribution System).
- b) The provision of Ancillary Services (if any) that are provided using assets which form part a Distribution System
- c) The planning, maintenance, augmentation and operation of the Distribution System.
- d) The provision, installation, commissioning, testing, repair, maintenance and reading of WESM- related meters that are not used to measure the delivery of electricity to end-users or other customers; and

- e) The billing , collection and the provision of customer services that are directly related to the delivery of electricity to end-users or to that relate to the connection of such persons to a Distribution System

2. Distribution Connection Services Business Segment

This segment has the following distribution connection services:

- a) The provision of capability at each Connection Point to SORECO I's Distribution System to deliver electricity or to take electricity from the Connection Point and the conveyance of electricity:
 - a. from the facilities of persons which are directly connected to the Distribution System
 - b. from the Connection Point to the facilities of persons which are directly connected to the Distribution System;
- b) The planning, installation, maintenance, augmentation, testing and operation of Distribution Connection Assets; and
- c) Provision of other services that support any of the above services.

3. Regulated Retail Services Business Segment

This segment comprises the provision of regulated retail services, namely; services pertaining to the sale of electricity to end-users who are included in the Captive Market of SORECO I and includes:

- a) Billing, collection and the provision of customer services to such end-users in their capacity as electricity consumers;
- b) Energy trading (including the purchase of electricity and hedging activities) undertaken in connection with the sale of electricity to end-users who are included in the Captive Market; and
- c) The sale of electricity to end-users who are included on the Captive Market of SORECO I.
- d) The provision, installation, commissioning, testing, repair, maintenance and reading of meters that are used to measure the delivery of electricity to end-users who are included on the Captive Market.

4. Related Businesses Business Segment

This segment comprises the provision of all other services, and the carrying out of all other activities that utilize distribution assets, facilities, or staff including:

- a) Electricity related services such as the construction and maintenance of customer installations and
- b) Non-electricity related services such as telecommunications services.

3. ACCOUNTING SEPARATION

SORECO I shall adopt the ERC-approved Accounting and Cost Allocation Manual (ACAM) in its operations. It shall likewise adopt certain policies and principles to be able to achieve an effective accounting separation, as follows:

- a. Principles to Achieve Accounting Separation
- b. Allocation Principles
- c. Chart of Accounts
- d. Basic Accounting Principles

4. DESCRIPTION OF SEPARATION

SORECO I as of the filing of this application remain a single entity and will be unbundled through separation of its employees and assets as may be appropriate. The separation will be through evaluation of workloads, job descriptions, qualifications and usage in the case of fixed assets. It will allocate its departments to the business segments. However, for departments with un-attributable costs, allocation factors will be utilized as prescribed in the ACAM.

SORECO I's BSUP presents a diagrammatic presentation of the following:

- a. General Structure Per Business Segment
- b. Detailed Structure Per Business Segment
- c. Detailed Structure Per Department

5. MILESTONES AND HIGHLIGHTS

Details on SORECO I's Milestones and Highlights are documented in the BSUP.

6. PROGRAM FOR CODE OF CONDUCT

SORECO I shall comply with ERC Resolution No. 31, Series of 2006, the Code of Conduct for Competitive Retail Market participants

- 5. Printed as well as electronic copies of SORECO I's proposed BSUP are being submitted herewith and made

integral parts hereof as Annexes "A" and "A-1" respectively.

6. In addition to the BSUP, SORECO I is likewise submitting herewith for the Honorable Commission's consideration and approval, a set of Confidentiality Policies and Guidance to be observed by concerned personnel, together with a Board Resolution adopting certain sets of obligations imposed upon Distribution Utilities (DUs), among others, as provided under Article V of the Business Separation Guidelines (BSG), attached hereto and made integral parts hereof as Annexes "B" and "C", respectively.
7. Finally, SORECO I is likewise submitting in support of the application its Accounting Separation Statements (Audited Amount) and Audited Financial Statements for Year 2011, attached hereto and made integral parts hereof as Annexes "D" and "E", respectively.

PRAYER

WHEREFORE, premises considered, it is respectfully prayed of this Honorable Commission that after due notice and hearing, SORECO I's proposed **BUSINESS SEPARATION AND UNBUNDLING PLAN (BSUP)** be approved accordingly.

Other relief, just and equitable in the premises 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 **24 January 2018 (Wednesday) 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, SORECO I is hereby directed to:

- 1) Cause the publication of the attached Notice of Public Hearing once (1x) in a newspaper of nationwide circulation in the Philippines, at its own expense, and the date of the last publication to be made not later than ten (10) days before the date of the scheduled initial hearing;
- 2) Furnish with copies of this Order and the attached Notice of Public Hearing the Offices of the Provincial Governors,

the City and Municipal Mayors, and the Local Government Unit (LGU) legislative bodies within SORECO I's franchise area for the appropriate posting thereof on their respective bulletin boards;

- 3) Inform of the filing of the *Application*, its reasons therefor, and of the scheduled hearing thereon the consumers within SORECO I's franchise area, by any other means available and appropriate;
- 4) Furnish with copies of the *Application*, this Order and the attached Notice of Public Hearing the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire to send their duly authorized representatives at the scheduled hearing; and
- 5) Furnish with copies of the *Application* and its attachments all those making requests therefor, 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 the 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 Governors, Mayors, and LGU legislative bodies or their duly authorized representatives, bearing the seals of their offices;
- 3) The evidence of the means employed by Applicant to inform of the filing of the *Application*, its reasons therefore, and of the scheduled hearing thereon, the consumers within the affected franchise area;
- 4) The evidence of receipt of copies of the *Application*, 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;

- 5) The evidence of receipt of copies of the *Application* and its attachments by all those making requests therefor, if any; and
- 6) Such other proofs 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 therefore; 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.

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SORECO I 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, 13 December 2017.

FOR AND BY AUTHORITY
OF THE COMMISSION:


AGNES VST DEVANADERA
Chairperson and CEO


LS: KJP/LSP/APV

COPY FURNISHED:

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Brgy. Gulang-gulang, Irosin, Sorsogon
3. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village
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4. Commission on Audit
Commonwealth Avenue
Quezon City, Metro Manila
5. Senate Committee on Energy
GSIS Bldg. Roxas Blvd., Pasay City
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6. House Committee on Energy
Batasan Hills, Quezon City, Metro Manila
7. Office of the Provincial Governor
Province of Sorsogon
8. Office of the Sangguniang Panlalawigan
Province of Sorsogon
9. Office of the Municipal Mayor
Irosin, Sorsogon
10. Office of the Sangguniang Bayan
Irosin, Sorsogon
11. Office of the Municipal Mayor
Bulan, Sorsogon
12. Office of the Sangguniang Bayan
Bulan, Sorsogon
13. Office of the Municipal Mayor
Matnog, Sorsogon
14. Office of the Sangguniang Bayan
Matnog, Sorsogon
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16. Office of the Sangguniang Bayan
Sta. Magdalena, Sorsogon
17. Office of the Municipal Mayor
Magallanes, Sorsogon
18. Office of the Sangguniang Bayan
Magallanes, Sorsogon
19. Office of the Municipal Mayor
Juban, Sorsogon
20. Office of the Sangguniang Bayan
Juban, Sorsogon
21. Office of the Municipal Mayor
Bulusan, Sorsogon
22. Office of the Sangguniang Bayan
Bulusan, Sorsogon
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Casiguran, Sorsogon
24. Office of the Sangguniang Bayan
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