

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 NO. 9136
AND RULE 10 OF ITS
IMPLEMENTING RULES AND
REGULATIONS**

ERC CASE NO. 2016-025 MC

**QUEZON II ELECTRIC
COOPERATIVE, INC.
(QUEZELCO II),
Applicant.**

X ----- X

BOOKED
Date: FEB 22 2018
By: 

DECISION

Before the Commission for resolution is the Application filed on 09 September 2016 by Quezon II Electric Cooperative, Inc. (QUEZELCO II) for the approval of its business separation and unbundling plan (BSUP) pursuant to Section 36 of Republic Act No. 9136 and Rule 10 of its Implementing Rules and Regulations.

QUEZELCO II alleged the following in its *Application*:

1. Applicant is a non-stock, non-profit electric cooperative, duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office at Brgy. Gumian, Infanta, Quezon;

2. It holds an exclusive franchise from the National Electrification Commission, to operate an electric light and power distribution service in certain municipalities of the province of Quezon, namely: Burdeos, Gen. Nakar, Infanta, Jomalig, Panukulan, Patnanungan, Polillo and Real.

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, applicant 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. Applicant's proposed BSUP is divided into six (6) sections, described in detail hereunder, as follows:

SECTION I. DETAILS OF CURRENT STRUCTURE

a) CORPORATE PROFILE

The Quezon II Electric Cooperative, Inc. ("QUEZELCO II") is a non-stock, non-profit electric cooperative, organized pursuant to the provisions of Presidential Decree No. 269 and registered with the National Electrification Administration on August 11, 1978. Its initial energization occurred on January 19, 1983.

The National Electrification Commission granted QUEZELCO II an exclusive franchise to operate and distribute light and power services in eight (8) municipalities of the Province of Quezon, three of which are located in the mainland, namely: Infanta, Real and Gen. Nakar, while the remaining five are island municipalities, namely: Polillo, Burdeos, Panukulan, Patnanungan and Jomalig.

Status of Electrification as of December 31, 2011:

Out of the 129 barangays within the coverage area of QUEZELCO II, 125 or 97% are energized, with 27,267 actual connections and 24,398 member-consumers.

Financial and Statistical Report as of December 31, 2011:

Total kWh sales for 2011 amounted to 21,153,433, broken down as follows: Residential: 14,465,308.30; Low Voltage: Commercial-3,836,592.60; Industrial - 1,002,319.50; Public Buildings-1,184,124.60; Water System - 328,968.10; Street lights-336,119.60.

b) CORPORATE STRUCTURE

Applicant's present organizational structure is divided into five (5) main Divisions, briefly described as follows:

1. Office of the General Manager (OGM)

The OGM is composed of the General Manager's Office, Internal Audit Office and the Area Offices.

2. Finance Services Division (FSD)

This is composed of the Consumer Accounting Section, General Accounting Section and Cashiering Section.

3. Institutional Services Division (ISD)

This is composed of Member Services Section and Administrative Section.

4. Technical Services Division (TSD)

This is composed of the Engineering and Operation Section and Construction and Maintenance Section.

5. Area Offices

The Area Offices consist of the Polilio Area Office, Real Area Office and Gen. Nakar Area Office.

c) DESCRIPTION OF FUNCTIONS

1. General Assembly

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

2. Board of Directors (BOD)

Responsible for the formulation and adoption of policies, plans and guidelines of the cooperative in coordination with the General Manager.

3. Office of the General Manager (OGM)

Responsible for the over-all planning, organizing, directing, controlling and coordinating all activities, programs and projects of the cooperative. Ensures implementation of NEA-approved policies, guidelines and other governing laws, rules and regulations. Plans and/or

reviews/approves feasibility of projects. Sees to it that all planned and approved targets, activities and projects are accomplished accordingly and efficiently. Ascertains that all assets and properties of the cooperative are properly accounted and safeguarded from destruction or losses of any kind. Submit reports to the Board of Directors and NEA.

4. Internal Audit

Responsible for the installation and implementation of an effective and efficient internal control system in all departments and offices of the cooperative. Certifies the accuracy and reliability of final documents, records and reports. Enhances/checks adherence to prescribed managerial policies, laws, rules, and regulations of the cooperative and NEA. Relates with the different departments in terms of control and operational efficiency. Submits reports and recommendations on findings of any mis/malfeasance to General Manager.

5. Area Manager/Coordinator

Responsible in the planning, implementation and supervision of the area office, ensuring the office is operating to the highest degree of efficiency in order to meet the desired objective of the cooperative. Keep the member-consumers well informed of the cooperative policies, rules and regulations. Maintain harmonious relationship with all sectors of the community. Keep coordinated with all the divisions for the efficient implementation of the cooperative's programs.

6. Finance Services Division (FSD)

Responsible for the preparation of the Annual Budget and Work Plan of the FSD and the entire cooperative properly consolidated. Functions as the implementing arm of the General Manager in the financial operations of the cooperative. Formulates for the approval of the General Manager and applies effective and systematic procedure in collection of all receivables deposit and transfer of funds and payments of payables. Keeps and maintains an up-to-date and accurate records/books of accounts and reports of all business transactions of the cooperative. Acts as custodian of the financial resources and documents. Responsible for the development and improvement of financial programs and policies for approval of the General Manager/Board of Directors. Submit reports as required by the OGM.

6.1 General Accounting Section

Implements strictly the accounting and internal control system and procedures affecting the financial aspects of the cooperative. Sees to it that the cooperative is operating in accordance with the budget duly

approved by NEA. Monitors the daily financial standing against releases/disbursements to insure safe level of cash/fund balances. Prepares an up to date monthly financial report and other documents.

6.2 Consumer Accounting Section

Formulates and applies, subject to the approval of the General Manager an effective and systematic procedure in meter reading, billing and collection of energy sales. Keeps an accurate and updated profile/ledger of accounts of the individual consumers with balances properly aged. Implements an effective collection and disconnection procedures. Responsible for the effective/accurate computerization of the consumer billing and posting of power bills.

6.3 Cashiering Section

Responsible for the daily records of fund transactions and reports. Deals with the depository bank. Accounts for all collections, reconciles the same with issued official receipts, and deposits daily cash collections. Administer petty cash fund. Responsible for check payments to bonafide payees.

7. Institutional Services Division (ISD)

Responsible for the preparation of the Annual Budget/Work Plan of the ISD. Handles the Institutional development of the members and employees of the cooperative as well. Insures the effectiveness and success of information campaigns, annual membership meetings, district elections/meetings, trainings and seminars. Responsible for the proper implementation of programs/projects on consumers' housewiring and proper use of electricity and special projects and BAPA operations. Prepares policies, rules and guidelines on work improvements and procurement system for the approval of the Board of Directors and General Manager. Insures the efficiency and effectiveness of the motor-pool and general membership services. Submit and update an accurate report as required by the OGM/NEA.

7.1 Administrative Section

Directs and supervise the activities of the HRD and General Services Section. Provides conducive working condition and promotes harmonious relationship between officials and employees. Ensures the maintenance and recommends the hiring of qualified/highly competent employees in accordance with NEA and cooperative guidelines and standards. Assures/monitors the proper and effective utilization of vehicles, equipments and supplies. Responsible for the

efficient, systematic and honest to goodness procurement system. Responsible for the conduct/discipline of the employees. Act as custodian of the official documents and records of cooperative.

7.2 Member Services Section

Ensures the efficient processing of membership/service connection application. Keeps updated and accurate records of membership/actual member-consumers. Takes charge of the effective and successful implementation of (a) information campaign, (b) annual membership meetings, (c) district elections/meetings, (d) trainings/seminars of employees and cooperative's members. Educates member-consumers on their duties and responsibilities and wise utilization of electricity. Prepares plans and supervises the work activities of power use/special projects and BAPA organization and operation. Promotes goodwill among/ between employees, member-consumers, NEA/public/ cooperative's officials and other parties concerned. Organizes and maintains good relationship with MSEACs officers/members.

8. Technical Services Division (TSD)

Responsible for the construction, operation and maintenance of electric distribution system. Advises the General Manager on all activities of the cooperative related to the design and construction of the system facilities. Monitors the construction of projects. Responsible for the strict implementation of system loss reduction program. Assist the General Manager in the preparation of long-range and annual work plan to guide system development. Develops training program of employees within the division to improve capabilities and skills in the performance of duties. Responsible for the work schedule of all employees in the division.

8.1 Engineering and Operation Section

Responsible for the conduct of initial studies and design of backbone and lateral lines, maintenance of distribution transformer, automatic voltage regulator, oil sectionalizer, kWh meter and other line equipment. Supervises the warehousing function of the cooperative. Responsible in the preparation and evaluation of engineering design/plan and staking sheet. Responsible for the right of way clearing.

8.2 Construction and Maintenance Section

Responsible for the construction, rehabilitation and expansion of lines. Supervises major repair of distribution lines. Prepares schedule of line

expansion/rehabilitation. Set schedule of preventive maintenance to be performed. Maintain adequate record of equipment and maintenance work performed by the unit/section.

d. DESCRIPTION OF CURRENT PROCESSES

1. Meter Reading Process

Reading period is every 24th to 28th day of the month. The Meter Reader/Collector get the Meter Reading Sheet of the routes assigned to him from the Billing Section. The Meter Reader/Collector reads the individual kilowatt hour meter in the consumer's premises and writes the reading in the Meter Reading Sheet. The accomplished Meter Reading Sheet per route is then submitted to the Billing Section. The Billing Encoder receives and sorts the accomplished Meter Reading Sheets for billing preparation.

2. Billing Process

Billing period is every 25th to 29th day of the month. The Finance Manager gives the Rate Schedules to the Consumer Accounting Supervisor (CAS). The CAS distributes Rate Schedules to assigned Billing Encoder. The Billing Encoder inputs the rates in the Billing System. The Billing Encoder receives the Meter Reading Sheets with the current reading and inputs the reading in the Billing System then prints the Billing Edit Lists. The Billing Edit Lists is forwarded to the CAS. The CAS checks the rates and current reading in the Billing Edit Lists. The Billing Encoder re-inputs all corrections in the Billing System and prints the Official Electric Billing Receipts (OEBRs) and Summary of Sales. The CAS distributes the printed OEBRs and Summary of Sales to the Bill Custodian/Area Coordinator/Area Manager who then receives, counts and records the number of bills received per route, and distributes the OEBRs to the assigned Meter Reader/Collector.

3. Collection Process

Collection period starts every 29th day of the month. The Bill Custodian/Area Coordinator/Area Manager issues the OEBRs per route to the assigned Meter Reader/Collector. The Meter Reader/Collector delivers the Statement of Accounts (SOA) to every customer. Some customers immediately pay their power bills after receiving the SOA. The collected amount is deposited by the Meter Reader/Collector to the Cooperative's authorized depository bank. The Meter Reader/Collector prepares Collection Report and submits the report to the Bill Custodian. Customers can also pay their power bills in the Area Offices and Sub-Offices. The Teller receives the payment. The Teller then deposits the collection to the cooperative's authorized depository bank, and then prepares Collection Report for

submission to the Bill Custodian. The Bill Custodian checks the Collection Report with corresponding collection stubs and bank deposit slips. After checking, the Bill Custodian posts the collection to the Route Control Sheet, then the Collection Report is submitted to the Cashier for issuance of Official Receipt. The Cashier issues the Official Receipt which is attached to the Collection Report. The Cashier prepares Daily Collection Report. The Collection Report is forwarded to the Billing Section for posting to the Billing and Collection System.

4. Disconnection Process

Customers pay their power bills within nine (9) days from presentation of the statement of account. On the 10th day, a Notice of Disconnection shall be served. The delinquent customer is given (2) days to settle the overdue bill. Disconnection starts on the 13th day of the following month. The Cooperative hires contractual employees to perform disconnection. The Bill Custodian prepares the list of delinquent customers which is forwarded to the Disconnection Crew. The Disconnection Crew disconnects the customer's kilowatt hour meter and prepares and submits the list of disconnected customers to the Bill Custodian.

5. Reconnection Process

A disconnected customer who wishes to apply for reconnection shall be reconnected upon payment of the overdue bills, 5% penalty and reconnection fee including Value Added Tax (VAT). The Complaints Officer/Member Development Officer verifies the customer's overdue account with the Bill Custodian. The Complaints Officer/Member Development Officer then informs the customer of the amount to be paid. The Bill Custodian forwards the power bill to the Teller for payment of the customer. Teller accepts payment of the power bill together with the 5% penalty and reconnection fee. The Complaints Officer/Member Development Officer prepares and records the Job Order (JO) of reconnection. The approved JO is forwarded to the Lineman for the reconnection of the customer. The accomplished JO will be submitted to the Member Services Section or the Member Development Officer.

6. New Service Connection

An applicant for service connection will attend Pre-Membership Seminar held every Friday from 8:30-11:00 AM, conducted by the Institution Services Division (ISD). The applicant submits to the ISD required documents duly signed by the Municipal Engineer such as Electrical Lay-out Plan, Electrical Permit, Certificate of Final Electrical Inspection/Completion, together with Proof of Ownership, photocopy of valid I.D. and Barangay Clearance. The

Housewiring Inspector (from ISD) conducts inspection and evaluation of the actual housewiring. If approved, the applicant pays the charges to the Cashier. If disapproved, the documents are given back to the applicant for improvement. After payment of the required charges, the documents and the official receipt are forwarded to the ISD for the preparation of Job Order (JO) for Tapping. The documents together with the JO are forwarded to Technical Services Division (TSD) for the preparation of material requirements, then the actual connection/tapping. After tapping, the documents and the JO are returned to the ISD, duly signed and noted by the linemen who performed the tapping. The ISD keeps the records and prepares report which is forwarded to the FSD/CAS for billing purposes.

7. Consumer Complaints Process

A member-consumer with a complaint regarding electric service proceeds to the ISD to report the complaint. The ISD prepares a Job Order. If the complaint concerns the lines/power interruption, the JO is forwarded to the TSD. If the complaint concerns high billing, the JO is forwarded to the FSD/CAS. After the TSD/FSD has addressed the complaint, the JO with notation is returned to the ISD for monitoring and record purposes.

8. Process for CAPEX and Non-CAPEX Procurement

Procurement of CAPEX and Non-CAPEX is based on the cooperative's pre-determined needs embodied in the Approved Cash Operating Budget duly supported with approved documents/forms. Purchases of items with an estimated cost below P50,000.00 is centralized to the Purchaser of the Administrative Section. Purchases of items with an estimated cost of more than P50,000.00 is undertaken by the Procurement Committee. For procurement of item/s with an estimated cost of P500,000.00 and above, a bidding process is undertaken.

SECTION II. DETAILS OF BUSINESS SEGMENTS

Applicant is engaged in four (4) business segments, consisting of three regulated business segments, namely: Distribution Services (DS), Distribution Connection Services (DCS) and Regulated Retail Services (RRS) and one (1) non-regulated business segment, the Related Businesses Segment (RBS).

A. Regulated Business Segments:

1. DISTRIBUTION SERVICES BUSINESS SEGMENT (DS)

This segment has the following distribution services:

a) The conveyance of electricity through the cooperative's Distribution System and the control and monitoring of electricity as it is conveyed through said 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 (DCS)

This segment has the following distribution connection services:

a) The provision of capability at each Connection Point to the cooperative'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 (RRS)

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 the cooperative 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;

c) The sale of electricity to end-users who are included on the Captive Market of the cooperative; and

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.

B. Non- Regulated Business Segment:

4. RELATED BUSINESSES SEGMENT (RBS)

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.

Applicant's BSUP likewise presents a detailed segregation of employees per department as well as an allocation of its assets to the appropriate business segments in which they are utilized.

SECTION III. ACCOUNTING SEPARATION

Applicant 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

SECTION IV. DESCRIPTION OF SEPARATION

Applicant shall comply with the provisions of the Business Separation Guidelines (BSG). It shall maintain its division and structure to meet the performance standards prescribed by the National Electrification Administration (NEA). All employees connected with different segments will be identified accordingly

and cost and expenses incurred shall be allocated to each segment as provided in the BSG. All manpower and facilities used and shared by the cooperative to different business segments shall be allocated using a fair and reasonable method as provided in the approved ACAM.

Applicant'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 Division

SECTION V. MILESTONES AND HIGHLIGHTS

Details of the cooperative's milestones and highlights are documented in the BSUP.

SECTION VI. PROGRAM FOR CODE OF CONDUCT

Pursuant to Sections 43(t) and 45 of Republic Act 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA) and Section 3(c) (iv) Rule 10 of its Implementing Rules and Regulations (IRR), herein applicant embraces and shall comply with Resolution No. 31, Series of 2006, the Code of Conduct for Competitive Retail Market Participants as promulgated by the Energy Regulatory Commission.

Copy of the proposed BSUP is being submitted herewith and made integral part hereof as Annex "A".

9. Further, applicant prepared an Accounting Separation Statements in accordance with the Accounting and Cost Allocation Manual (ACAM) for Electric Cooperatives, based on its Audited Financial Statements for the Year 2011 for the Honorable Commission's consideration, being submitted herewith together with the cooperative's 2011 Audited Financial Statements, attached hereto and made integral parts hereof as **Annexes "B" and "C"**, respectively.

10. Lastly, applicant 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 of the cooperative, together with a Board Resolution adopting certain sets of obligations imposed upon Distribution Utilities, among others, as provided under Article V of the Business Separation Guidelines (BSG), 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, QUEZELCO II's proposed Business Separation and Unbundling Plan (BSUP) be approved accordingly.

Other reliefs, just and equitable under the premises, are likewise prayed for.

Finding the *Application* sufficient in form and substance, the Commission issued an *Order* and a *Notice of Public Hearing*, both dated 27 September 2016, setting the case for initial hearing on 16 November 2016.

On 11 November 2016, QUEZELCO II filed its *Pre-trial Brief*.

During the hearing on 16 November 2016, only Applicant QUEZELCO II appeared. No intervenor or oppositor manifested its intent to participate in the proceedings as such.

In the said hearing, the Commission looked into the documents presented by the Applicant to prove its compliance with the publication and posting requirements provided in the *Order* dated 27 September 2016. The Commission verified QUEZELCO II's compliance with the jurisdictional requirements, all of which were marked as Exhibits "A" to "D", inclusive. Thus, the Commission acquired jurisdiction over the instant case.

On 25 April 2017, QUEZELCO II filed its *Formal Offer of Evidence*.

Thereafter, the Commission issued an *Order* dated 26 June 2017 admitting the exhibits contained in the *Formal Offer of Evidence* filed by QUEZELCO II, and submitting the instant case for resolution.

ISSUES

The issue for the Commission's resolution is whether or not the proposed Business Separation and Unbundling Plan (BSUP) of QUEZELCO II meets the requirements of section 36 of R.A. 9136 (EPIRA), Rule 10 of the EPIRA Implementing Rules and Regulations, ERC Resolution No. 49, Series of 2006 otherwise known as the Business Separation Guidelines, as Amended and ERC Resolution No. 07, Series of 2012 Adopting the Accounting and Cost Allocation Manual for Electric Cooperatives.

THE COMMISSION'S RULING

The Commission resolved to approve the Business Separation and Unbundling Plan (BSUP) of Applicant QUEZELCO II subject to certain conditions.

DISCUSSION

Section 36 of Republic Act No. 9136, known as the Electric Power Industry Reform Act of 2001 (EPIRA) provide:

Unbundling of Rates and Functions. – xxx.

Within six (6) months from the effectivity of this Act, each distribution utility shall file its revised rates for the approval by the ERC. The distribution wheeling charge shall be unbundled from the retail rate and the rates shall reflect the respective costs of providing each service. For both the distribution retail wheeling and supplier's charges, inter-class subsidies shall be removed in accordance with this Act.

Within six (6) months from the date of submission of revised rates by NPC and each distribution utility, the ERC shall notify the entities of their approval.

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.

Likewise, Rule 10, Section 1 of EPIRA's Implementing Rules and Regulations provide:

Xxx, any Electric Power Industry Participant shall structurally and functionally unbundle its business activities in accordance with Section 5 of the Act, namely: generation, transmission, distribution and supply. Structural unbundling shall mean the separation of different activities through the creation of separate divisions or departments within a single company or, at the option of any Electric Power Industry Participant, a separation into different juridical entities, with a clear separation of accounts between regulated and non-regulated business activities. Functional unbundling shall mean the separation of functions into different components. For this purpose, business activities resulting from the initial unbundling process may be further unbundled to widen the scope for competitive activities. The ERC shall formulate the appropriate guidelines and shall ensure full compliance with this provision.

Consequently, on 22 September 2003, the Commission adopted the Business Separation Guidelines (BSG).

In 2005, the Electric Cooperatives (ECs), on various dates, filed with the Commission their individual applications for the approval of their BSUP and Accounting and Cost Allocation Manual (ACAM) pursuant to the provisions of Section 36 of the EPIRA and Rule 10 of its IRR.

On 21 June 2006, the Commission promulgated Resolution No. 49, Series of 2006, entitled: "Business Separation Guidelines, As Amended" to incorporate additional business segments and activities, and to make it consistent with the Code of Conduct for Competitive Retail Market Participants which prescribes the operational separation between a distribution utility's regulated and non-regulated business activities.

In the meantime, on 13 September 2007, the Commission issued an *Order* to the ECs concerned, stating among others, that the initial evaluation of the applications related to their BSUP and ACAM disclosed that the data contained therein are insufficient to enable the Commission to make a reasonable determination of the EC's BSUP and ACAM.

On 15 September 2011, the Philippine Rural Electric Cooperatives Association, Inc. (PHILRECA) filed a Petition for the adoption of the proposed ACAM for ECs in ERC Case No. 2011-008 RM¹.

Subsequently, on 03 October 2011, the Commission issued an *Order* directing all ECs to file their respective manifestations stating their intentions on whether or not to adopt the instant petition and withdraw their previous BSUP and ACAM applications. The ECs thereafter withdrew their respective 2005 applications and adopted the petition filed by PHILRECA.

The Commission approved PHILRECA's petition on 11 June 2012 and issued Resolution No. 07, Series of 2012².

¹Entitled, In the Matter of the Petition for the Adoption of the Proposed Accounting and Cost Allocation Manual (ACAM) for Electric Cooperatives.

² Entitled, A Resolution Adopting the Accounting and Cost Allocation Manual (ACAM) for Electric Cooperatives.

Pursuant to the Commission's Resolution No. 49, Series of 2006 and Resolution No. 07, Series of 2012, QUEZELCO II filed the instant *Application*.

QUEZELCO II seeks the approval of its proposed Business Segments, Chart of Accounts and Allocation Factors Utilized.

QUEZELCO II proposed that it shall adopt seven (7) Distribution Business Segments, namely: Distribution Services (DS), Distribution Connection Services (DCS), Regulated Retail Services (RRS), Related Business Services (RB), Last Resort Supply Services (LRSS), Non-Regulated Retail Services (NRRS), and Wholesale Aggregation (WA).

At present, QUEZELCO II only has four (4) business segments in place, namely: DS, DCS, RRS, and RB. The three (3) other business segments, LRSS, NRRS and WA, which QUEZELCO II proposed are for its future business undertakings in line with the implementation of the Open Access and Retail Competition (OARC).

The Commission finds QUEZELCO II's proposed business segments acceptable for being consistent with the approved ACAM.

The Commission takes note that QUEZELCO II only allocated its accounts in its four (4) existing distribution business segments. In the event that a revision in the allocation of costs related to the business segments becomes necessary, QUEZELCO II should inform the Commission of the consequent modification on its BSUP.

QUEZELCO II also adopted the approved ACAM in its operation, including the prescribed Chart of Accounts and Allocation Factors, in consonance with the provisions of the BSG, as amended.

Finding the QUEZELCO II's Chart of Accounts and Allocation Factors consistent with the ACAM, the Commission likewise approves the same.

In addition, QUEZELCO II must modify its Revenue Schedule so that it will tally with the revenue portion of its Total Statement of Income for the year 2010.

Furthermore, in the preparation of Accounting Separation Statement, the BSG, as amended, requires that transfer pricing

policies shall be used for transactions between business segments. However, in the instant *Application* QUEZELCO II has no proposed transfer pricing methodology. Thus, the Commission recommends the calculation of transfer prices based on fully allocated costs using the cost allocation standards without any mark-up for services, products and assets transferred between related entities or business segments.

IN VIEW OF THE FOREGOING, the Commission **APPROVES** the Business Separation and Unbundling Plan (BSUP) of Quezon II Electric Cooperative, Inc. (QUEZELCO II) subject to the following conditions:

- a) QUEZELCO II is directed to inform the Commission of the consequent modification in its BSUP in the event that a revision in the allocation of costs related to the business segments becomes necessary;
- b) QUEZELCO II is directed to modify its Revenue Schedule to tally with the Revenue of its Total Statement of Income for the year 2010; and
- c) QUEZELCO II's calculation of transfer prices based on fully allocated costs using the cost allocation standards without any mark-up is recommended for services, projects and assets transferred between related entities or business segments.

Likewise, QUEZELCO II is required to submit the following documents for proper monitoring of its compliance within five (5) months from the end of the financial year, as provided in Article II, Section 2.12 of the BSG, as amended:

- 1) The Accounting Separation Statements prepared by it for the relevant period, in accordance with the approved BSG, as amended, and the Commission's approved ACAM;
- 2) The Management Responsibility Statement required to accompany the Accounting Separation Statements in accordance with Section 2.6 of the BSG, as amended;
- 3) The Auditor's Report on the Accounting Separation Statements prepared in accordance with Section 2.8 of the BSG, as amended;

- 4) The General Information Sheet required to accompany the Accounting Separation Statement in accordance with Section 2.10 of the BSG, as amended;
- 5) The Compliance Report required to accompany the Accounting Separation Statements in accordance with Section 2.11 of the BSG, as amended; and
- 6) A consolidated copy of the relevant Electric Power Industry Participant's ACAM, where such ACAM has been amended, so that it does not correspond with the consolidated copy of the ACAM that has been previously approved by the Commission.

SO ORDERED.

Pasig City, 18 July 2017.

JOSE VICENTE B. SALAZAR*
Chairman and CEO




ALFREDO J. NON
Commissioner



GLORIA VICTORIA C. YAP-TARUC
Commissioner



JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Commissioner



GERONIMO D. STA. ANA
Commissioner

ROS: JSC/GCA/AJMO/FED

LS: JHH/LSH/APV

* The Chairman was placed on preventive suspension as per Order of the Office of the President (OP-DC Case No. 17-D-094) dated 02 May 2017 and received on 04 May 2017.

Copy Furnished:

1. **Dechavez & Evangelista Law Offices**
Counsel for Applicant QUEZELCO II
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Pearl Drive, Ortigas Center, Pasig City
2. **Quezon II Electric Cooperative, Inc. (QUEZELCO II)**
Applicant
Brgy. Gumian, Infanta, Quezon
3. **Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village
Makati City, Metro Manila
4. **Commission on Audit**
Commonwealth Avenue
Quezon City, Metro Manila
5. **Senate Committee on Energy**
GSIS Bldg. Roxas Blvd., Pasay City
Metro Manila
6. **House Committee on Energy**
Batasan Hills, Quezon City, Metro Manila
7. **Philippine Chamber of Commerce and Industry (PCCI)**
Campus Avenue corner Park Avenue,
McKinley Town Center, Fort Bonifacio, Taguig City
8. **Office of the Mayor**
Burdeos, Quezon
9. **Office of the LGU Legislative Body**
Burdeos, Quezon
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18. **Office of the Mayor**
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23. **Office of the LGU Legislative Body**
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24. **Office of the Governor**
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