

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. 2016-027 MC

**LEYTE III ELECTRIC
COOPERATIVE, INC.
(LEYECO III),
Applicant.**

D O C K E T E D
Date: MAY 30 2018
By: [Signature]

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DECISION

Before this Commission for resolution is the *Application* filed by Leyte III Electric Cooperative, Inc. (LEYECO III) on 07 October 2016, seeking 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.

In the said *Application*, LEYECO III alleged the following:

1. The applicant, LEYECO III is a non-stock, non-profit Electric Cooperative duly organized and existing by virtue of the Presidential Decree 269, as amended, with capacity to sue and be sued, with principal office address at Brgy. San Roque, Tunga, Leyte, where it may be served with summons and other legal processes, represented in this instance by its General Manager, ALLAN L. LANIBA, who is authorized to file this Application per Board Resolution No. 2016-08-137 dated August 19, 2016, which likewise authorized to engage the services of Atty. Rogelio P. Gula, copy of which is hereto attached as "Annex A".
2. Applicant 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 north-

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eastern part of Leyte covering nine (9) municipalities namely: Capoocan, Carigara, Barugo, San Miguel, Tunga, Jaro, Alangalang, Sta. Fe, and Pastrana. A copy of Applicant LEYECO III's Certificate of Franchise is hereto attached as "**Annex B**".

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. In support of this Application, LEYECO III had passed a Board Resolution No. 2016-08-138 adopting the Statement of Compliance with Article 5 of the Business Separation Guidelines, as amended, copy of said resolution is hereto attached as "**Annex C**".
6. Hence, pursuant to and in compliance with the requirements of the foregoing law, rules and resolutions, LEYECO III, through this Application, is herein submitting its **BUSINESS SEPARATION AND UNBUNDLING PLAN (BSUP)**, copy of which is hereto attached as "**Annex D**" including its correspondingly pre-marked annexes, for the Honorable Commission's evaluation and approval. This proposed **BUSINESS SEPARATION AND UNBUNDLING PLAN (BSUP)** aims to separate business activities of LEYECO III, and unbundle its structural and functional business activities with the end 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.
7. LEYECO III's proposed BSUP is composed of and divided into the following sections, to wit:

I. DETAILS OF CURRENT STRUCTURE

a) CORPORATE PROFILE

LEYECO III is a non-stock, non-profit electric cooperative organized pursuant to the provisions R.A. 6038 as amended by P.D. 269. Its franchise area covers seven (9) municipalities within the Province of Leyte namely: Capoocan, Carigara,

Barugo, San Miguel, Tunga, Jaro, Alangalang, Sta. Fe, and Pastrana. LEYECO III's main office is located in Brgy. San Roque, Tunga, Leyte. It has two (2) collection offices located in Carigara, Leyte & Alangalang, Leyte that caters collection to all its customers in the whole coverage. But mobile collection tellers are stationed in every municipality once every week.

Status of Electrification as of December 31, 2015:

Total number of Barangays - 285; Percent of energization - 100%; Total potential consumers - 59,956; Total membership - 40,995; house connections - 47,982.

Financial and Statistical Report as of December 31, 2015:

Billed Consumer Accounts - 42,984; Residential consumers - 41,114; Low voltage consumers - 1,870; Lifeline Consumers - 11,414 ; Total kWh Sales - 30,461,794; Total Operating Revenue (PhP) - 301,884,295; Net Income (PhP) - 12,667,147; Average System Rate (PhP) - 10.39; Power Purchase (MWH) - 33,768; Cost of Power (PhP) - 212,694,812; Average Power Cost (PhP) - 6.30; Total Assets (PhP) - 506,987,458; Average Days Receivable - 40; Collection Efficiency - 97.28%; Average System Loss - 9.79%; Maximum Demand - 7.2MW; Load Factor - 57.69%; Power Factor - 99.75%; and No. of substations - 2.

b) CORPORATE STRUCTURE

LEYECO III's present organizational structure is divided into five (4) main departments briefly described as follows:

1. Office of the General Manager (OGM)

The Office of the General Manager (OGM) is responsible for the over-all management of the operations of the cooperative. The OGM ensures the implementation of NEA- Approved Board policies and guidelines, cooperative laws, rules and regulations, NEA policies and guidelines and other applicable governing laws, rules and regulations as provided by the EPIRA. In addition, the OGM also plans feasibility studies on projects, sees to it that all coop-planned targets, activities and projects are accomplished accordingly and efficiently. Under the OGM is the CORPLAN and AUDIT Division.

2. Finance Services Department (FSD)

FSD is responsible of the financial operations of the cooperative. It prepares the annual budget and financial work plan; it handles the procedures in the collection, deposit and transfer of funds as it also keeps the records of accounts and reports of all business transactions. The department serves as custodian of financial resources and documents. There are two divisions under FSD such as the Accounting and Treasury Division and the Consumers Account Division.

3. **Institutional Services Department (ISD)**

The scope of responsibilities of ISD include those pertaining, but not limited to the handling of institutional development of the member-consumers and ensure the efficiency and effectiveness in information campaign; annual/membership meetings; district election/ meetings, trainings and seminars to capacitate the workforce; consumers house wiring and proper use of electricity; processing of membership/service connections; special projects and BAPA operations. Furthermore, this department prepares policies, rules and guidelines on work improvement and procurement system for the approval of the Board and GM. It also ensures the efficiency and effectiveness of the motor pool and general services. It is in charge of the up-to-date and accurate reportorial requirements mandated by different agencies in the power industry such as, DOE, ERC, NEA and others.

4. **Technical Services Department (TSD)**

The TSD directly addresses the planning, construction, operation and maintenance of the distribution system; conducts periodic system analysis and evaluation of distribution lines to minimize system loss, while it also maintains service reliability and efficiency, among other technically electric related matters. It is also responsible for warehousing of distribution line materials and equipment.

c) **DESCRIPTION OF FUNCTIONS**

1. **General Membership**

Their general functions are to vote, 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, rules and regulations adopted by the Board and requirements of the NEA, and to pay the membership fee.

2. **Board of Directors**

Primarily responsible for the governance of the electric cooperative. It exercises corporate powers, conducts business of the Cooperative and controls all its properties. It is also responsible for monitoring and overseeing management actions.

3. **Office of the General Manager**

Responsible for the corporate management and operation functions of the Cooperative. The implementing arms of the OGM are the different Departments.

A 46

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. Institutional 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.

6. Technical Services Department

This department is responsible for the planning, design, construction, system improvement, operation and maintenance of the distribution system.

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

D. DESCRIPTION OF CURRENT PROCESS

1. Meter Reading and Billing Process

The Inside-E-Power (ISEP) automated system manages the processing of the monthly billing cycle that starts from meter reading down to collection of power bills. The Meter Readers under the Finance Services Department are responsible for the manual reading of kwh meters and simultaneous distribution of power bills. The IT Officer and the Billing Analyst are responsible in the uploading to the meter reading equipment (PSION) consumer data then downloading to the ISEP the reading data.

2. Collection Process

Collection of power bills is handled by the Treasury and Accounting Division. Tellers are stationed at the main office and in every municipalities covered by LEYECO III. All Municipalities have at least one day off –line collection every week. The Treasury Head is responsible in issuing official receipts to the Tellers for the daily collection and deposit to appropriate bank accounts.

3. Disconnection Process

Disconnection Notices are served to delinquent accounts after lapse of five (2) calendar days or more from due date. After forty-eight (48) hours from receipt of the Notice of Disconnection and the account remains unpaid, the customer is subjected to disconnection. Serving of notice of disconnection and actual disconnection in the field are

undertaken by the regular Meter Readers and sometimes Technical crew augment disconnection.

4. Reconnection Process

The crew from the Technical Services Department or under the Consumer Account Division generally handles reconnection of paid accounts based on the service memo issued by the Complaint Desk Officer under the Institutional Services Department. Such memo is prepared once the consumer presents to the ISD the official receipt of payment of the power bill including the surcharge and the reconnection fee.

5. New Service Connection Process

The Institutional Services Department (ISD) accepts and processes applications for new service connections as well as actual conduct of service dropping for qualified applicants. The applicants are required to submit prescribed documents as attachment to the Connect Orders for execution by the Service Dropping Crew. Aside from documentary requirements, the applicants are also required to attend the Pre-Membership Orientation Seminar that is scheduled every Friday.

6. Procurement of CAPEX

CAPEX goods and services to be procured should be included in the Technical Services Department's ICPM and Cash Operating Budget. A purchase requisition should have been approved by the General Manager for procurement of all goods and services. Procurements amounting to P1,000,000.00 and above shall undergo through public bidding and result of such bidding shall be approved by the Board of Directors.

7. Procurement of Non-CAPEX

Non-CAPEX goods and services to be procured should be included in the requesting department's ICPM and Cash Operating Budget. A purchase requisition should have been approved by the General Manager for procurement of all goods and services. Procurements amounting to P1,000,000.00 and above shall undergo through public bidding and result of such bidding shall be approved by the Board of Directors.

8. Consumer Requests and Complaints

Consumers' requests and complaints received by the Cooperative's employees in the field or in the office, are endorsed to the Complaint Desk Officer, who is the front desk officer under the Institutional Services Department, for recording in the system. Likewise, walk-in customers with requests or complaints are entertained and processed by the

6/2

Complaint Desk Officer who will then prepare a Service Memo for dispatch to the crew in the field.

II. DETAILS OF BUSINESS SEGMENTS

In accordance with the provisions of the Business Separation Guidelines (BSG) as amended, LEYECO III adopts six (6) out of the seven (7) distribution business segments. These segments are further classified into Regulated and Non-Regulated business segments, and identified as follows:

1. Distribution Services Business Segment

This segment comprises the provision of distribution services - namely:

- a) the conveyance of electricity through LEYECO III'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) 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 LEYECO III'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 to the Connection Point, or
 - 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

2/8

- 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 LEYECO III 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 LEYECO III.
- 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. **Last Resort Supply Business Segment**

In preparation for the open-access, LEYECO III included this segment as it is obligated to provide services as the supplier of last resort for contestable customers in the future.

This segment comprises the provision of Supplier of Last Resort (SOLR) services provided by LEYECO III namely: services pertaining to the sale of electricity to SOLR Customers, including billing, collection and the provision of basic customer service.

5. **Non-Regulated Retail Services Business Segment**

As of the filing of this proposed BSUP, LEYECO III does not have contestable customers in its franchise area. However, this segment was included in anticipation of the emergence of contestable customers in the future.

This segment comprises the provision of non-regulated retail services provided by LEYECO III, namely: services pertaining to the sale of electricity to end-users who are included in the contestable market or to other customers who are not end-users and includes:

- a) 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;

- b) The sale of electricity to end-users who are included in the contestable market or to other customers who are not end-users;
- c) 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 in the contestable market or to other customers who are not end-users.

6. **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.

Initial Plan to Engage into Generation Activity (Generation of Electricity and Provision of Ancillary Services Business Segment)

LEYECO III plans to have its own generation facility by constructing a mini-hydro in its franchise area to augment its electric supply and also provide cheaper electricity rates for the benefit of its consumers.

LEYECO III'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.

III. ACCOUNTING SEPARATION

LEYECO III shall adopt the ERC-approved Accounting and Cost Allocation Manual (ACAM) for Electric Cooperatives 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

9/25

IV. DESCRIPTION OF SEPARATION

LEYECO III as of the filing of this application remains 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.

LEYECO III'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

V. MILESTONES AND HIGHLIGHTS

Details on LEYECO III Milestones and Highlights are documented in the BSUP.

VI. PROGRAM FOR CODE OF CONDUCT

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

7. Printed as well as electronic copies of LEYECO III's proposed BSUP are being submitted herewith and made integral parts hereof as **Annex "D"**.
8. In addition to the BSUP, LEYECO III 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 **Annex "G"**.
9. Finally, LEYECO III is likewise submitting in support of the application its Accounting Separation Statements (Audited Amount), Trial Balance 2014 and 2015, and Audited Financial Statements for Year 2014 and 2015, and Job Description, attached hereto and made integral parts hereof as **Annexes "E", "F" and "H" and "I"** respectively.

PRAYER

WHEREFORE, PREMISES considered, it is respectfully and humbly prayed of this Honorable Commission that after due notice, evaluation and hearing,

10/2

LEYECO III's proposed BUSINESS SEPARATION AND UNBUNDLING PLAN (BSUP) be approved accordingly.

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

The Commission, having found LEYECO III's *Application* sufficient in substance, issued an *Order* and a *Notice of Public Hearing*, both dated 19 June 2017, setting the case for initial hearing on 17 August 2017.

On 10 August 2017, LEYECO III filed its *Pre-trial Brief* dated 04 August 2017.

During the hearing held on 17 August 2017, only the representative of LEYECO III appeared. There was no intervenor or oppositor who appeared. There was no intervention or opposition filed either.

Likewise, during the said hearing, the Applicant presented its compliance with the jurisdictional requirements pursuant to the *Order* dated 19 June 2017. Upon perusal of the documents submitted, the Commission declared that the Applicant complied with the notice and publication requirements.

Thereafter, the Expository Presentation commenced. Ms. Lanie Sumayod Tumulak (Ms. Tumulak), the Institutional Services Department Manager of LEYECO III, and Ms. Lerma E. Advincula (Ms. Advincula), the Finance Department Manager of LEYECO III, delivered under oath the said presentation. The Commission then terminated the Expository Presentation and proceeded with the Pre-trial Conference.

In the course of the Pre-trial Conference, LEYECO III moved that the Commission adopt its *Pre-trial Brief* there being no intervenor or oppositor. Finding the said Motion in order, the Commission granted the same. Thereafter, LEYECO III commenced its presentation of evidence.

During the evidentiary hearing, LEYECO III presented again Ms. Tumulak and Ms. Advincula who testified in support of the instant *Application*. In the course of their direct testimony, they identified various documents duly marked as exhibits. The Commission thereafter asked questions, which were addressed by LEYECO III.

Upon the termination of the presentation of evidence, LEYECO III was directed to submit its *Formal Offer of Evidence*, and additional documents to aid the Commission in the evaluation of the instant *Application*.

On 08 September 2017, LEYECO III filed its *Formal Offer of Documentary Exhibits* (FOE) dated 07 September 2017.

Having found the exhibits contained in the Applicant's FOE to be relevant and material in the evaluation of the *Application*, the Commission issued an *Order* dated 24 April 2018, admitting the exhibits and declaring the case submitted for resolution.

ISSUE

The issue for the Commission's resolution is whether or not the proposed Business Separation and Unbundling Plan (BSUP) of LEYECO III 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 LEYECO III subject to certain conditions.

DISCUSSION

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

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

12/1

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 provides:

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 segment 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 intention 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.

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

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

LEYECO III manifested that it shall undertake six (6) out of 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) and Non-Regulated Retail Services (NRRS).

In the future, LEYECO III plans to have its own generation facility by constructing mini-hydro in its franchise area to augment its electricity supply and also to provide cheaper electricity rates for the benefit of its consumer.

¹ Entitled, 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.

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

The Commission takes note that LEYECO III 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, LEYECO III should inform the Commission of the consequent modification on its BSUP.

LEYECO III, in general, 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.

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*, LEYECO III has no proposed transfer pricing methodology. Thus, the Commission resolved that the calculation of transfer prices should be 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 Leyte III Electric Cooperative, Inc. (LEYECO III) subject to the following conditions:

- a) LEYECO III's calculation of transfer prices should be based on fully allocated costs using the cost allocation standards without any mark-up for services, projects and assets transferred between related entities or business segments; and
- b) LEYECO III 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.

Finally, LEYECO III is required to submit the following documents for proper monitoring of its compliance within five (5) months from the end of each financial year (starting FY 2018), as provided in Article II, Section 2.12 of the BSG, as amended:

15/08

- 1) 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) Management Responsibility Statement required to accompany the Accounting Separation Statements in accordance with Section 2.6 of the BSG, as amended;
- 3) Auditor's Report on the Accounting Separation Statements prepared in accordance with Section 2.8 of the BSG, as amended;
- 4) General Information Sheet required to accompany the Accounting Separation Statement in accordance with Section 2.10 of the BSG, as amended;
- 5) 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, 08 May 2018.


AGNES VST DEVANADERA
Chairperson and CEO




ALFREDO J. NON
Commissioner


GLORIA VICTORIA C. YAP-TARUC
Commissioner


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Commissioner


GERONIMO D. STA. ANA
Commissioner

ROS: DBBI/CCA/AJMO/FED

for: HIRAN
LS: KJP/ARG/APV

16/5/18

ERC Case No. 2016-027 MC
DECISION/o8 May 2018
Page 17 of 18

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9. Office of the Local Government Unit (LGU) Legislative Body
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Alangalang, Leyte
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