

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



**IN THE MATTER OF THE  
APPLICATION FOR  
APPROVAL OF THE  
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. 2016-036 MC**

**FIRST CATANDUANES  
ELECTRIC COOPERATIVE,  
INC. (FICELCO),  
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* dated 27 October 2016 (Application) filed by First Catanduanes Electric Cooperative, Inc. (FICELCO) on 25 November 2016 for approval of its Business Separation and Unbundling Plan (BSUP).

FICELCO 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 Barangay Marinawa, Bato, Catanduanes;
2. It is the exclusive franchise holder issued by the National Electrification Commission (NEC), to operate an electric light and power distribution service in certain municipalities of the Province of Catanduanes, namely: Bagamanoc, Baras, Bato, Gigmoto, Panganiban, San Miguel, Viga, Virac, San Andres, Caramoran, and Pandan.
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

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activities and rates in accordance with the sectors as identified in Section 5 hereof. The ERG 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, FICELCO 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. FICELCO's proposed BSUP is composed of the following sections, to wit:

**1. DETAILS OF CURRENT STRUCTURE**

a) Corporate Profile

FICELCO is a non-stock, non-profit electric cooperative organized on October 28, 1971 pursuant to the provisions R.A. 6038 as amended by P.D. 269. Its franchise area covers eleven (11) municipalities within the Province of Catanduanes, namely: Bagamanoc, Baras, Bato, Gigmoto, Panganiban, San Miguel, Viga, Virac, San Andres, Caramoran, and Pandan;

FICELCO's Main Office is located in Barangay Marinawa, Bato, Catanduanes. With two (2) Area Offices namely: Area Office 1 (Viga- Panganiban-Bagamanoc), Area Office 2 (Caramoran-Pandan) and four (4) Service Centers are located in Virac, San Andres, Gigmoto and Caramoran.

Status of Electrification as of December 31, 2015 is as follows:

• Covered barangays	-	100%
• Total Potential consumers	-	57,179
• Total membership	-	47,002

Financial and Statistical Report as of December 31, 2015:

• Active Consumer Accounts	-	47,467
• Residential Consumers	-	43,765

• Commercial	-	2,059
• Public Building	-	1,222
• Street Light	-	421
• Lifeline Consumers	-	16,557
• Total MWH Sales for 2015	-	39,972
• Total Assets (Php)	-	479,562M
• System Loss	-	13.23%
• Number of Employees	-	175
• Ratio of cons. per employee	-	286/1
• No. of outside services employed	-	16
• No. of substations	-	none

b) Organizational Structure

FICELCO's present organizational structure is divided into eight (8) main departments, as follows:

1. The Office of the General Manager (OGM)

The OGM oversees the functions of the seven (7) departments of the cooperative namely, Internal Audit, Corporate Planning, Administrative, Consumer Services, Finance Services, Technical Services and the Area Office.

2. The Internal Audit Department (IAD)

The Internal Audit Department is responsible for developing and evaluating the system of internal control and ensures its effective and efficient implementation in all the departments of the co-op. Under the department are the Financial, Institutional and Technical Auditors.. They are responsible for reviewing financial, institutional and technical transactions, activities, plans and programs of the coop in accordance with the policies, rules and regulations, ensuring the internal control are consistently adhered to and applied.

3. The Corporate Planning Department (CORPLAN)

The Corporate Planning Department is responsible for facilitating the cooperative's corporate activities such as strategic and business planning. The Department assists the General Manager in the formulation and implementation of sound management policies and objectives.

The CORPLAN has two divisions: Regulatory Compliance and the Information and Communications Technology.

The Information and Communications Technology Division is responsible for developing, designing, installing, maintaining and updating computer systems and programs which will effectively respond to the needs and demands of the cooperative. The Regulatory

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Compliance Division is responsible for coordinating the planning and development of the annual workplan of each department and ensures the submission of all regulatory compliances.

4. The Administrative Department (ADMIN)

Administrative Department is responsible for the delivery of support and logistic services, human resource development, office administration and talent acquisition.

Under the department are two divisions: the Human Resource and Support Services (HRSS) and the Materials and Logistics Services. The HRSS is responsible for the human resource development of the coop employees, handling general services construction and/or rehabilitation works of Co-op building and other facilities and serves as the custodian of the coop's official documents and records. On the other hand, the Materials and Logistics Services Division is responsible for the safekeeping of the coop warehouse, the coop's equipment and supplies and maintenance and utilization of official vehicles.

5. The Consumer Services Department (CSD)

The Consumer Services Department is responsible for effective corporate image building and developing programs and promotional activities which will enhance member participation. The department has two divisions. The Consumer Development Division (CDD) is tasked to draw-up and supervise the implementation of plans on member-consumers, information education campaigns, conduct peaceful and clean district election and productive annual general membership meetings.

The Consumer Services, Power Use and Barangay Power Association (CSPU & BAPA) Division is responsible for the upliftment of the living standard of the barangay through the proper and productive use of electricity, supervision over Coop's BAPA and power use programs, customer complaints handling and ensures the implementation of the streetlight metering and other special connections.

6. The Finance Service Department (FSD)

The Finance Services Department (FSD) is responsible for all the financial operation of the cooperative. It is responsible for the consolidation of the annual budget, preparation of monthly financial statistical report, and customer monthly billings and handles the procedures in the collection, deposit, transfer of funds. The FSD is the custodian of the coop's financial records and books of

accounts. There are two divisions under this department. The Accounting Division handles the daily collection, disbursements and remittances. It also prepares reports for regulatory compliance. The Meter Reading Billing Collection Division handles the monthly billings of customers and disconnection of unpaid accounts.

7. The Technical Service Department (TSD)

The Technical Services Department (TSD) ensures the maximum utilization of the coop's distribution assets, line construction, maintenance and operations in accordance with the plans, specifications and standards. Performance standard on service reliability, power quality and system loss must be in compliance with the Philippine Distribution Code (PDC) under the EPIRA Law. It periodically conduct system analysis and evaluation of distribution lines, to ensure that it conforms with the said standard.

The System Planning and Construction Division (SPCD) is in-charge of the coop's engineering designs and plans and construction/rehabilitation of distribution line while the Maintenance and Operations Division (MOD) is responsible for the maintenance of the electric distribution system to assure cautious and uninterrupted electric service to the member-consumers. The MOD is also responsible for the proper operation of the coop distribution line and ensure that parameters like nominal voltage is within the tolerable limit and system loss is within the cap or below the cap.

8. The Area Office Department (AO)

The Area Office Department shall be the implementing arm of the Management in overseeing the day to day activities concerning the delineated functions of the Finance, Institutional and Technical Departments in the two (2) Area Offices namely: Area Office 1 for the Viga, Panganiban and Bagamanoc municipalities and Area Office 2 for the Caramoran, Pandan and part of San Andres municipalities.

Specific functions of the following departments under the organizational structure of FICELCO including the General Membership and Board of Directors (BOD) to wit;

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 rule and regulation adopted by the

Board, and requirements of the National Electrification Administration, and to pay the membership fee.

2. Board of Directors

The Board as policy making body is fully responsible to member-consumers for the management of internal affairs of the cooperative for public relations and for relations with government agencies.

Supervises the General Manager in the implementation of policies and programs of the cooperative.

BOD's Power, Duties and Functions shall be in accordance under the approved Constitutions and By-Laws of the cooperative.

3. Office of the General Manager (OGM)

The OGM is tasked to perform the following functions: responsible for the over-all planning, organizing, directing, controlling and coordinating of all activities, programs and projects of the cooperative, ensures the implementation of NEA-governed policies, guidelines and other governing laws, rules and regulations and that of the cooperative, plans and/or review/approves feasibility of projects, it sees to it that all coop's planned and approved targets, activities and projects are accomplished accordingly and efficiently, ascertains that all assets and properties of the co-op are properly accounted and safeguarded from destruction or losses of any kind and submits report to the Board and NEA. Implements programs to reduce level of revenue lost and theft of electricity:

4. Internal Audit Department (IAD)

The IAD is responsible for the assessment of tone and risk management culture of the organization as well as evaluates and reports on the effectiveness and efficiency of the implementation of management policies, detection and prevention of fraud, tests internal control, monitors compliance with company and government regulation and updates the management of all reported irregularities and its necessary recommendations and review of all expenses of the different departments to ensure that these are expanded in accordance with the NEA approved COB, ERC memoranda, bulletins, Co-op Policies and Auditing Standards; and

5. Corporate Planning Department (CORPLAN)

The CORPLAN is responsible in the coop's strategic and business planning and information technology systems. It provides assistance to the General Manager

in the formulation and implementation of sound management policies and objectives, develop procedures and techniques to unify and coordinate work functions of the organization making recommendations for revisions and improvements as required, designing, installing, maintaining and updating computer systems and information which can effectively respond to the needs and demands of the cooperative and coordinate the planning and development of the annual work plan for each department of the Cooperative as well as the projection of the overall Cooperative work plan;

6. Administrative Department (ADMIN)

The ADMIN is responsible for the plans and coordinates the development and evaluation of the organizational structure, work procedures, techniques and personnel administration; for the formulation of personnel policies and administration of general and security services; for the maintenance and control of all personnel, legal and administrative files, for the well- rounded health, safety and training programs of the Co-op. for the smooth and efficient operation of the Human Resource and Oversees the observance of safety standards by the Division Personnel. It supervises the efficient performance of the Motorpool and Ground/Building Section personnel and conducts periodic inspection of all Co-op properties and recommends necessary actions;

7. Consumer Services Department

The CSD advises and assists the General Manager in the development of programs promoting the effective use of electricity by members, and in undertaking activities which will enhance member participation in the Cooperative. It establishes and develops member-consumers' understanding of the Cooperative objective and sense of belonging to the Cooperative. It prepares annual work plan of activities and budget for member-consumers participation activities in the use of electricity and in the institutional development of the Cooperative, promotes good public relations, membership awareness and understanding of the Coop's principle and objectives and enhance member participation in the Coop's affair and develop their sense of belonging to the Cooperative. It coordinates with local officials, sectoral group leaders and media men regarding Coop's undertakings. It develops power use programs to promote increase in revenue and ensures the compliance to Consumer Service Standards;

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8. Finance Service Department

The FSD consolidates the annual Cash Operating Budget and Annual Procurement Plan and other financial plans of the coop and develops and recommends the financial plan for system operations and carries out the approved work plan as directed. It conducts the office operation in accordance with the Cooperative's budget and instructions of the General Manager;

And establishes office procedures and directs efficient handling of business-type operations of the Cooperative, including billing and collections, bookkeeping, records management, verifications of vouchers, invoice and preparation of checks. It further prepares plans and strategies towards the attainment of the collection efficiency targets of management and reducing receivable to the least possible level;

9. Technical Services Department

The TSD ensures that the construction of system facilities is in accordance with the approved technical standards which provides adequate, safe and economical electric service to all member-consumers within the co-op's service area. It reviews the prepared engineering designs and plans for Force Account, monitors data gathering, simulation and segregation of distribution system loss. It also ensures the timely submission of ERC/DMC, DOE, NEA and other line agencies required monthly reports. It reviews and evaluates the maintenance and operation plans for execution in the cooperative's distribution system to ensure continuous and dependable electric service to the member-consumers and conducts inspection of all constructions to assure conformity with the approved plans and specifications.

10. Area Office Department

The Area Office Department ensures that Area Offices (1 & 2) complied and attained the performance targets of the cooperative as a standard set by NEA. Responsible also for the accommodation, prompt disposition and immediate action to the requests and complaints received by the Area Offices (1 & 2) and in compliance to the Energy Regulatory Commission's and National Electrification Administration's reportorial requirements.

c) Description of Current Process

Description of current processes are documented in FICELCO's proposed BSUP. In every process it includes the activities, references and responsible person, to wit;

1. Turn-on and Membership Application



2. Meter Reading and Billing
3. Collection and Remittance
4. Disconnection of Service
5. Reconnection of Service
6. Complaints/Requests Memo
7. Purchase of Materials
8. Vouchering

**2. DETAILS OF BUSINESS SEGMENTS**

**Distribution and Related Activities Business Segments**

FICELCO is purely engaged in distribution and related activities. There are seven distribution and related activities business segments. These segments are further classified into regulated and non-regulated Business Segments. Although at present FICELCO is involved in the four (4) business segments, this BSUP includes the other three (3) business segments in the event that the coop will be engaged into such, using the same methodology on separation. Below is the description of each business segments:

**Regulated Business Segments:**

**1. Distribution Services Business Segment (DS)**

This segment has the following distribution services:

- 1.1.1. Conveyance of electricity through a Distribution System and the control and monitoring of electricity as it is conveyed through the Distribution System (including any services that support such conveyance, control or monitoring or the safe operation of the Distribution System).
- 1.1.2 Provision of Ancillary Services (if any) that are provided using assets which form part a Distribution System (an example of such Ancillary Services is services provided by a series reactor or a static var compensator);
- 1.1.3 Planning, maintenance, augmentation and operation of the Distribution System.
- 1.1.4 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
- 1.1.5 Billing, collection and the provision of customer services that are directly related to

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the delivery of electricity to end-users or to that relate to the connection of such persons to a Distribution System (whether such services are provided to those end- users or to Suppliers or to any other person).

The assets included in this Business Segment are all the facilities and assets used to provide the distribution services of this particular business segment.

The liabilities included in this Business Segment are all the liabilities incurred directly or a relevant share of the shared liabilities which are incurred to provide the services or undertake the operational activities of this particular business segment.

Revenues include all revenues derived from the provision of the distribution services, including revenues derived from the sale of related facilities, plants or assets.

Costs include all costs associated with management, maintenance and operation of Distribution System facilities and other assets in order to provide the distribution services of this particular business segment, as well as the related depreciation of these assets.

## **2. Distribution Connection Services Business Segment (DCS)**

This segment has the following distribution connection services:

2.1 Provision of capability at each Connection Point to a Distribution System to deliver electricity or to take electricity from the Connection Point and the conveyance of electricity:

2.1.1 from the facilities of persons which are directly connected to the Distribution System

2.1.2 from the Connection Point to the facilities of persons which are directly connected to the Distribution System;

2.2 Planning, installation, maintenance, augmentation, testing and operation of Distribution Connection Assets; and

2.3 Provision of other services that support any of the above services.

The assets included in the Business Segment are all the facilities and assets used to provide the distribution connection services of this particular business segment.

The liabilities included in this Business Segment are all the liabilities incurred directly or a relevant share of the shared liabilities incurred to provide the Services or undertake the activities of this particular business segment.

Revenues include all revenues associated with providing the distribution connection services, as well as revenues derived from the sale of related facilities, plant, or assets.

Costs include all costs associated with the management, maintenance, and operation of the Distribution Connection Assets in order to provide the distribution connection services, including the corresponding depreciation of the Distribution Connection Assets.

### **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, and includes:

- 3.1 Billing, collection and the provision of customer services to such end-users in their capacity as electricity consumers;
- 3.2 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
- 3.3 Sale of electricity to end-users who are included on the Captive Market.

Regulated retail services also comprise 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.

The assets included in this Business Segment are all the assets used directly, or a relevant share of the shared assets used to provide the regulated retail services.

The liabilities included in this Business Segment are all the liabilities directly incurred or a relevant share of the shared liabilities incurred to provide the services or undertake the operational activities of this particular business segment.

Revenues include all revenues associated with providing the regulated retail services.

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Costs include all costs associated with the provision of the regulated retail services, including the relevant share of the operating and maintenance costs and the depreciation costs of the assets used to provide the services or undertake the operational activities of this particular business segment.

#### **4. Last Resort Supply Business Segment (LRS)**

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

The assets included in this Business Segment are all the assets directly used or a relevant share of the shared assets which are used, to provide the SOLR services of this particular business segment.

The liabilities included in this Business Segment are all the liabilities directly incurred or a relevant share of the shared liabilities incurred to provide the services or undertake the operational activities of this particular business segment.

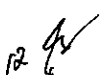
Revenues include all revenues associated with providing the SOLR services.

Costs include all costs associated with the provision of the SOLR services, including the relevant share of the operating and maintenance costs and the depreciation costs of the assets used to provide the services or undertake the activities of this particular segment.

#### **5. Wholesale Aggregation (WA)**

This segment comprises the Distribution Utility's service of purchasing electricity in bulk and selling this to other Distribution Utilities. It also comprises the provision of Wholesale Aggregation services provided by a distribution utility, namely services pertaining to the sale of electricity to other Distribution Utilities including billing, collection, and provision of basic customer service.

The assets included in this Business Segment are all the assets used directly, or a relevant share of the shared assets which are used, to provide the Wholesale Aggregation services. The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities which are incurred, to provide or undertake the activities of this particular segment.

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Revenues include all revenues associated with providing the Wholesale Aggregation services.

Costs include all costs associated with the provision of the Wholesale Aggregation services, including the relevant share of the operating and maintenance costs and the depreciation costs of the assets used to provide the services or undertake the activities of this particular business segment.

**Non-Regulated Business Segments:**

**6. Non-Regulated Retail Services Business Segment (NRRS)**

This segment comprises the provision of non-regulated retail services provided by a Distribution Utility 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:

- 6.1 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.
- 6.2 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 contestable market or to other customers who are not end-users; and
- 6.3 Sale of electricity to end-users who are included in the contestable market or to other customers who are not end- users.

Non-Regulated retail services also comprise 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 ( whether such services are provided to those end-users or other customers, to Suppliers or to any other person).

The assets included in this Business Segment are all the assets directly used or a relevant share of the shared assets used to provide the non-regulated retail services.

The liabilities included in this Business Segment are all the liabilities directly incurred or a relevant share of the shared liabilities incurred to provide the services or undertake the operational activities of this particular segment.

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Revenues include all revenues associated with providing the non-regulated retail services.

Costs include all costs associated with the provision of the non-regulated retail services including the relevant share of the operating and maintenance costs and the depreciation costs of the assets used to provide the services or undertake the operational activities of this particular business segment.

### **7. Related Businesses Business Segment (RB)**

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:

- 7.1 Electricity related services such as the construction and maintenance of customer installations and
- 7.2 Non-electricity related services such as telecommunications

FICELCO'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.

### **3. ACCOUNTING SEPARATION**

FICELCO 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. Adoption of the Basic Accounting Principles
- c. Allocation Principles
- d. Chart of Accounts

### **4. DESCRIPTION OF SEPARATION**

FICELCO as of the filing of this application remains a single entity and will be unbundled through separation of its employees and its 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 unattributable costs, allocation factors will be utilized as prescribed in the ACAM.

FICELCO's BSUP presents a diagrammatic presentation of the following:

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- e. General Structure Per Business Segment
- f. Detailed Structure Per Business Segment
- g. Detailed Structure Per Department

**5. MILESTONES AND HIGHLIGHTS**

Details on FICELCO's Milestones and Highlights are documented.

**6. PROGRAM FOR CODE OF CONDUCT**

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

**7. ACCOUNTING SEPARATION STATEMENTS (Annex "B-1")**

**8. TRIAL BALANCE FOR THE YEAR 2014 AND 2015 (Annex "C")**

**9. AUDITED FINANCIAL STATEMENTS FOR THE YEAR 2014 AND 2015 (Annex "C-1", Annex "C-2")**

**10. TEMPLATE OF CONFIDENTIALITY POLICIES AND GUIDELINES (Annex "D-1")**

**11. ATTACHMENTS - Annexes as shown below made integral parts in the application of FICELCO BSUP.**

- Chart of Accounts -Annex "B"
- Board Resolution - Annex "D"
- Article V of Business Separation Guidelines – Annex "D-2"
- Job Description- Annex "E"

Printed as well as electronic copies of FICELCO's proposed BSUP are being submitted herewith and made integral parts hereof as Annexes "A" and "A-1 "

PRAYER

WHEREFORE, premises considered, it is respectfully prayed of this Honorable Commission that after due notice and hearing, FICELCO's proposed BUSINESS SEPARATION AND UNBUNDLING PLAN (BSUP), to include three (3) other business segments, namely: Last Resort Supply Business Segment (LRS), Wholesale Aggregation (WA) and Non-Regulated Retail Services Business Segment (NRRS) in the event that FICELCO will be engaged into such, in addition to

the already four (4) existing business segments, BE APPROVED accordingly.

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

Finding the said *Application* sufficient in substance, the Commission issued an Order and a Notice of Public Hearing, both dated 26 April 2017, setting the case for initial hearing on 15 May 2017.

On 12 May 2017, FICELCO filed its *Pre-Trial Brief* dated 10 May 2017.

During the 15 May 2017 initial hearing, only FICELCO appeared. There was no intervenor or oppositor who appeared nor was there any intervention or opposition that was filed.

At the said hearing, Applicant presented its proof of compliance with the notice and publication requirements, which were duly marked as Exhibits "G" to "J-3". Finding the said submissions substantially compliant with the Order dated 26 April 2017, the Commission declared that it acquired jurisdiction over the instant case.

During the Expository Presentation, FICELCO's OIC-General Manager Mr. Jonathan O. Valles (Mr. Valles), discussed under oath the *Application*. After the said presentation, the Commission propounded clarificatory questions to FICELCO. In the course thereof, FICELCO was directed to submit additional documents.

Upon the termination of the Expository Presentation, the Commission conducted the Pre-Trial Conference. In the absence of any adverse party, intervenor, or oppositor, FICELCO moved that an Order of General Default be issued against those who failed to appear in the said hearing. Finding the said Motion meritorious, the Commission granted the same. Thereafter, the Commission adopted the issues and stipulation of facts as stated in FICELCO's Pre-trial Brief.

During the evidentiary presentation, FICELCO presented its witness, Mr. Valles, who testified in support of the *Application*. In the course of his direct examination, Mr. Valles identified various documents, which were duly marked as exhibits. After the direct

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examination, the Commission propounded questions to the said witness. By the end of the hearing, the Commission directed FICELCO to submit its Formal Offer of Evidence, as well as additional documents to aid in the evaluation of the instant case.

On 09 June 2017, FICELCO filed its *Compliance* dated 07 June 2017.

On 08 August 2017, FICELCO filed its *Formal Offer of Evidence* dated 26 July 2017.

On 20 April 2018, the Commission issued an Order admitting the exhibits contained in the said *Formal Offer of Evidence* 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 FICELCO 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 FICELCO 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

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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 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 RM<sup>1</sup>.

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 2012<sup>2</sup>.

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

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

FICELCO manifested that it shall undertake 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, only four (4) business segments are existing, namely: DS, DCS, RRS, and RB. FICELCO also applied for the remaining three (3) distribution business segments in the event that the cooperative will be engaged into such, using the same methodology on separation, namely: Non-Regulated Retail Services

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

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

(NRRS); Last Resort Supply Services (LRSS); and Wholesale Aggregation (WA).

It must be recalled that on 06 July 2015, the Commission promulgated ERC Resolution No. 12, Series of 2015, entitled *Resolution to Discontinue the Wholesale Aggregator Scheme as embodied in the Rules for the Registration of the Wholesale Aggregators*. Under the said Resolution, the Commission resolved to adopt the discontinuance of the Wholesale Aggregator scheme and the *Rules for the Registration of the Wholesale Aggregators, as Amended*. Therefore, the Wholesale Aggregator scheme being revoked, the same cannot be considered as a business segment in the instant case.

The Commission finds FICELCO's proposed business segments acceptable for being consistent with the approved ACAM, except for the WA segment<sup>3</sup>.

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

FICELCO, 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.

However, the Commission noted that FICELCO did not utilize the Account Codes as per ERC-Approved ACAM. In addition, FICELCO submitted its Cash Flow Statement for the Year Ended December 2015 that does not tally with its Audited Financial Statement for the same year.

Accordingly, FICELCO is directed to modify and submit the following:

- 1) Trial Balance for the Year 2015 utilizing the Account Codes per ERC-Approved ACAM; and

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<sup>3</sup> ERC Resolution No. 12, Series of 2015, entitled *Resolution to Discontinue the Wholesale Aggregator Scheme as embodied in the Rules for the Registration of the Wholesale Aggregators*.

- 2) Revised Cash Flow Statement for the Year Ended December 31, 2015.

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* FICELCO 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 First Catanduanes Electric Cooperative, Inc. (FICELCO) subject to the following conditions:

- a) FICELCO is directed to modify and submit the following:
  - 1) Trial Balance for the Year 2015 utilizing the Account Codes per ERC-Approved ACAM; and
  - 2) Cash Flow Statement for the Year Ended December 31, 2015;
- b) FICELCO'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
- c) FICELCO 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, FICELCO 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:

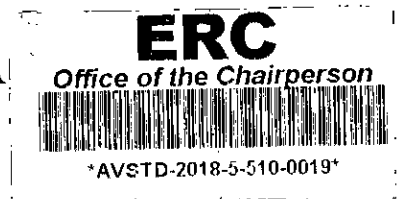
- 1) Accounting Separation Statements prepared by it for the relevant period, in accordance with the approved BSG, as amended, and the Commission's approved ACAM;

- 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.**

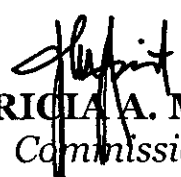
Pasig City, 08 May 2018.

  
**AGNES VST DEWANADERA**  
*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/CA/AJMO/FBD

LS: MLMG/ARG/APV

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Copy Furnished:

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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)  
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8. Office of the Mayor  
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9. Office of the Local Government Unit (LGU) Legislative Body  
Bagamanoc, Province of Catanduanes
10. Office of the Mayor  
Baras, Province of Catanduanes
11. Office of the LGU Legislative Body  
Baras, Province of Catanduanes
12. Office of the Mayor  
Bato, Province of Catanduanes
13. Office of LGU Legislative Body  
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14. Office of the Mayor  
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16. Office of the Mayor  
Panganiban, Province of Catanduanes
17. Office of the LGU Legislative Body  
Panganiban, Province of Catanduanes

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18. Office of the Mayor  
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19. Office of the LGU Legislative Body  
San Miguel, Province of Catanduanes
20. Office of the Mayor  
Viga, Province of Catanduanes
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Virac, Province of Catanduanes
23. Office of the LGU Legislative Body  
Virac, Province of Catanduanes
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San Andres, Province of Catanduanes
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San Andres, Province of Catanduanes
26. Office of the Mayor  
Caramoran, Province of Catanduanes
27. Office of the LGU Legislative Body  
Caramoran, Province of Catanduanes
28. Office of the Mayor  
Pandán, Province of Catanduanes
29. Office of the LGU Legislative Body  
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30. Office of the Governor  
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