

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. 2017-002 MC**

**IFUGAO ELECTRIC  
COOPERATIVE, INC.  
(IFELCO),  
Applicant.**

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**D O C K E T E D**  
Date: MAY 31 2018  
By: [Signature]

**DECISION**

Before this Commission for resolution is the Application filed on 20 January 2017 by Ifugao Electric Cooperative, Inc. (IFELCO) for the approval of its Business Separation and Unbundling Plan (BSUP) pursuant to Republic Act No. 9136 (EPIRA) and its Implementing Rules and Regulations (IRR).

IFELCO alleged the following in its *Application*:

1. IFELCO 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 Molave St., Poblacion East, Lagaw, Ifugao;
2. It holds an exclusive franchise from the National Electrification Commission to operate an electric light and power distribution service in the eleven (11) municipalities of the province of Ifugao, namely; Aguinaldo, Alfonso Lista, Asipulo, Banaue, Hingyon, Hungduan, Kiangan, Lagawe, Lamut, Mayoyao and Tinoc.
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

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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 Guideline, as Amended” as well as Resolution No. 07, Series of 2012, Adopting the Accounting and Cost Allocation Manual (ACAM) for Electric Cooperatives;
5. Further, in line and in compliance with the requirements of the foregoing law, rules and resolutions, IFELCO 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, 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.
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**

IFELCO is a non-stock, non-profit electric cooperative organized on May 16, 1977 and started its operation on August 1979. It was granted a franchise by the National Electrification Commission on September 24, 1980. Its franchise area covers the eleven (11) municipalities of the province of Ifugao, namely; Aguinaldo, Alfonso Lista, Asipulo, Banaue, Hingyon, Hungduan, Kiangon, Lagawe, Lamut, Mayoyao and Tinoc.

**Status of Electrification as of December 31, 2015:** There are seventy five (75) barangays within IFELCO’s franchise area and the cooperative has energized 100% of said barangays. The actual household connections have reached 35,394 out of 39,479 potential household connections. The actual consumers are 35,684.

**Financial and Statistical Report as of December 31, 2015:** As of December 2015, the total kWh Sales aggregated to 17,949,568, broken down as follows: Residential: 10,962,383; Low Voltage: Commercial: 2,995,979, Industrial: 1,053,749, Public Building: 2,688,131, Street Lights: 249,326.

**Employee Profile as of December 31, 2015:** The approved plantilla is 104 where 99 employees are classified as permanent and the remaining 5 are vacant. IFELCO likewise has 40 recorded job orders.

**B) CORPORATE STRUCTURE**

IFELCO's current organizational structure is briefly described as follows:

1. **Office of the General Manager (OGM)**  
The OGM has two (2) divisions, namely: the Internal Audit and the Sub-office.
2. **Institutional Services Department (ISD)**  
The ISD has two (2) divisions, namely: the Member Service Division and the Administrative Division.
3. **Technical Services Department (TSD)**  
The TSD has two (2) divisions, namely: the Planning/Design and Operation Division and the Construction/Maintenance Division.
4. **Financial Services Department (FSD)**  
The FSD has two (2) divisions, namely: the Accounting Division and the Meter Reading, Billing and Collection Division.

**C) DESCRIPTION OF FUNCTIONS**

1. **General Membership**  
The general functions of General Membership are summarized as follows:
  - a. To vote;
  - b. To participate in the general and special meetings of members;
  - c. To purchase from the Cooperative electric energy;
  - d. To comply with and be bound by the Articles of Incorporation and By-Laws of the Cooperative, any rules and regulations adopted by the Board, and requirements of the National Electrification Administration; and
  - e. To pay the membership fee.
2. **Board of Directors**  
The general functions of the Board of Directors are summarized as follows:
  - a. To manage the internal affairs of the Cooperative and assure the member-consumers the public relation as well as the Cooperative's relation to the Government and Public Agencies are maintained;
  - b. To delegate detail management, program planning and supervision over execution of policies and programs to the General Manager;
  - c. To assure democratic functioning of the Cooperative as provided in the by-laws and to keep the member-consumers fully informed;

- d. To promote member-consumers education in Cooperative principles and methods in effective power use application;
- e. To manage the expenditure of funds, improvement and maintenance of facilities, good labor relations, enhancement of community support, establishment of a coordinated program for community development, maintenance of good relation with State and national associations and other organization devoted to rural electrification and community development, attainment of area-wide service, compliance with provisions of loan contract and mortgage covenant, including other agreements to which the Cooperative is a party; and
- f. To be public-spirited citizens and be dedicated to the success of the Cooperative.

**3. Office of the General Manager (OGM)**

The general functions of the OGM are summarized as follows:

- a. To plan, organize, direct, control and coordinate all the activities, programs and projects of the Cooperative;
- b. To ensure the implementation of NEA-governed policies, guidelines and other governing laws, rules and regulations including that of the cooperative;
- c. To plan and/or review or approve feasibility of projects;
- d. To ensure that all Cooperative planned and approved targets, activities and projects are accomplished accordingly and efficiently;
- e. To ascertain that all assets and properties of the Cooperative are properly accounted and safeguarded from destruction or losses of any kind; and
- f. To inform the Board through monthly written/verbal reports, or as needed, and make recommendations to the Board on objectives, plans, policies and programs, and actions needed for the development of said program.

**(i) Internal Audit Division (IAD)**

The general functions of the IAD are summarized as follows:

- (a) To install and implement an effective and efficient internal control system in all departments and offices of the Cooperative;
- (b) To certify the accuracy and reliability of financial documents, records and reports;
- (c) To enhance or check adherence to prescribed managerial policies, laws, rules and regulations of the coop/NEA; and
- (d) To submit reports and recommendations regarding findings of any form of misconduct to the GM.

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

The general functions of the ISD are summarized as follows:

- a. To handle the institutional development of the members and employees of the cooperative and ensures the effectiveness and success of the following: Information Campaign, Annual General membership Assemblies, District election or meetings and trainings and seminars;
- b. To advise and assist the GM in developing programs for the member-consumers understanding of the Cooperative's objective and sense of belongingness; and
- c. To administer the effective implementation of policies concerning employees and their welfare as well as to discipline said employee.

**(i) Member Service Division (MSD)**

The general functions of the MSD are summarized as follows:

- (a) To assist the ISD Manager in formulating the implementation of training programs, information dissemination activities for the member-consumers;
- (b) To ensure that all consumers' complaints are properly acted upon and recorded;
- (c) To review all requirements for service connections and to ensure that they are properly accomplished and documented;
- (d) To supervise the processing of membership applications for submission to the Board for approval;
- (e) To update membership registration and other records; and
- (f) To devise plans and procedures for peaceful, honest and orderly conduct of district elections and holding of meaningful and informative annual general membership assembly (AGMA).

**(ii) Administrative Division (AD)**

The general functions of the AD are summarized as follows:

- (a) To ensure that policies, rules and guidelines on work improvement and procurement system are strictly followed;
- (b) To ensure the efficiency and effectiveness of the motor pool and general services; and
- (c) To lead the ISD in the conceptualization of programs that will actualize the Mission and Vision of the cooperative

**(iii) Administrative Supervisor**

The general functions of the Administrative Supervisor are summarized as follows:

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- (a) To direct and supervise the activities of the general services, property and procurement sections;
- (b) To maintain, secure and utilize the properties of the Cooperative and ensure that the service vehicles are available and in good running condition upon use;
- (c) To maintain the orderliness and cleanliness of the surroundings, buildings, and premises;
- (d) To adhere to the policy and guidelines on procurement; and
- (e) To act as custodian of the official documents and records of the Cooperative.

**(iv) Personnel Officer**

The general functions of the Personal Officer are summarized as follows:

- (a) To assist the ISD Manager in developing personnel management methods and procedures to deal with position descriptions, organizational structure, staffing, ranking, personnel recruitment, selection, appointments and the development of the personnel;
- (b) To provide personnel program including recruitment, orientation, training, appraisals, counseling, position description, wage/salary administration and information programs related to personnel development and advancement;
- (c) To develop, implement and evaluate policies, systems and procedures pertaining to HR management, administration and development;
- (d) To coordinate the proper implementation of personnel policies, rules and regulations and programs in all departments; and
- (e) To ensure the provision of medical and other necessary facilities and services to maintain the health and well-being of employees.

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

The general functions of TSD are summarized as follows:

- a. To prepare the annual budget and work plan of the TSD;
- b. To plan, construct, operate and maintain the distribution system of the cooperative in accordance with the approved work plan and technical standards and to provide a safe, adequate, reliable and economical electric service to member-consumers within the Cooperative coverage area;
- c. To conduct periodic system analysis and evaluation of distribution lines in order to minimize system losses and maintain service reliability and efficiency;
- d. To prepare 5 to 10 year work plans in collaboration with the FSD and ISD;

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- e. To conduct material planning and maintain the required necessary inventory level of line materials; and
- f. To comply with the ERC program for the distribution system pursuant to EPIRA Law.

**(i) Planning/Design and Operation Division**

The general functions of Planning/Design and Operation Division are summarized as follows:

- (a) To prepare and maintain plan designs and specifications of electrical system in accordance with NEA standards;
- (b) To assist in the construction and ensure maintenance of a safe and reliable line extensions;
- (c) To ensure and implement standard preventive maintenance of transformer, kWh meters and other system equipment's and facilities;
- (d) To implement and maintain metering standards, and monitors and sees to it that system loss (technical) is within allowable limits of ERC & NEA;
- (e) To undertake As-Built plans and report completed projects;
- (f) To maintain an up-to-date and accurate stock of construction materials in the warehouse for ready reference and cross-checking; and
- (g) To safe-keep and stock the equipment for construction and line materials

**(ii) Construction/Maintenance Division**

The general functions of the Construction/Maintenance Division are summarized as follows:

- (a) To operate and maintain the Cooperative's substations, including inspection and recommendation of preventive measures to avoid substation breakdown;
- (b) To ensure a continuous, reliable, efficient, and safe delivery of electric service through the conduct of preventive maintenance of substations, distribution system equipment and all other special equipment including precision instruments;
- (c) To effectively and efficiently manage a well-coordinated substation section team to ensure safe, efficient electric distribution service; and
- (d) To develop work procedures in order to facilitate the execution of assigned tasks as economically and as efficiently as possible.

**6. Financial Services Department (FSD)**

The general functions of the FSD are summarized as follows:

- a. To prepare the annual budget and financial plan of the FSD and the entire Cooperative;

- b. To act as the implementing arm of the GM with respect to the financial operation of the cooperative;
- c. To formulate and apply an effective and systematic procedure in the collection of all receivables, subject to the approval of the GM, deposits and transfer of funds and payment of cooperative payables;
- d. To keep and maintain an up-to-date and accurate records/book of accounts and reports of all business transactions of the Cooperative;
- e. To act as custodian of Cooperative's financial resources and documents;
- f. To develop and improve financial programs and policies for approval of the GM/BOD; and To submit reports as required by the GM.

**(i) Accounting/Cashiering Division**

The general functions of the Accounting/Cashiering Division are summarized as follows:

- (a) To review the propriety of transactions, verify payment documents and certify as to validity of transactions, propriety and completeness of supporting papers and accounting entries;
- (b) To supervise the work of accounting personnel and the implementation of accounting policies and procedures, in conformity with guidelines/standards and with the established accounting and auditing practices, rules and regulations;
- (c) To keep the management and other relevant external parties (e.g. NEA/ERC) informed of the financial matters through the preparation of relevant periodic reports;
- (d) To monitor the daily financial standing against releases/disbursements to ensure the safe level of cash/fund balances; and
- (e) To ensure that the cooperative budget is duly approved by the NEA.

**(ii) Meter Reading, Billing and Collection Division**

The general functions of the Meter Reading, Billing and Collection Division are summarized as follows:

- (a) To calculate monthly electric rates based on ERC approved guidelines;
- (b) To ensure proper and accurate billing of customers;
- (c) To prepare monthly summary of sales as to energy (kWh), amount and type of consumers; and
- (d) To submit a monthly reportorial requirements to the ERC regarding rates.



**D) DESCRIPTION OF CURRENT PROCESSES**

**1. Membership and Service Connection Process**

This process starts upon the application of the prospective member-consumers. They are required to attend the Electric Cooperative Pre-Membership Education Seminar every Friday of the week to inform them of their rights and duties as member-consumers and acquaint them of the Cooperative's operation.

The prospective member-consumers will be instructed to engage the services of an electrical engineer for the preparation of an Electrical Plan. After the Electrical Plan has been prepared, the member-consumers will engage the services of the Barangay Electricians for their House Wiring Installation in their residential/commercial/industrial establishment in accordance with the electrical plan and the accomplishment of other needed documents, such as Job Order & Membership Forms. The member-consumers shall then pay the required fees to the office.

After payment, the House Wiring Inspector will then inspect the installed housewiring. The Turn-on order shall be prepared by the complaint desk. After the inspection, the execution of Tapping through TSD-OPD shall follow. An accomplishment report shall be prepared and submitted to the concern departments for Billing, Recording & Monitoring purposes.

**2. Meter Reading Process**

This process involves the Meter Reading which starts every 13th day and ends on the 18th day of the month. IFELCO is currently on manual mode whereby the meter reading in the reading sheets is similar to the meter reading indicated in the consumers meter card.

Under this process, the Meter Readers are assigned during scheduled reading periods to read the kWh meters of the member-consumers and to determine their kWh consumption/usage for that particular period. They will note and record their readings on the Meter Cards of the consumers and on the Reading Sheets provided to them for billing purposes in the office.

**3. Billing Process**

This process starts after the reading sheets are submitted by the meter readers to the MRBC Chief/Supervisor for editing. The edited sheets will subsequently be turned over to the Computer Operator for encoding in the billing program.

To determine the power bill amount for the current period, the previous reading is deducted from the current reading to

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arrive the current kWh consumed/used for the period. This will be multiplied by the current power rate. The Official Electric Bill Receipts or OEBRs and the Summary of Sales will be the output of this process.

#### **4. Collection Process**

This process starts after the Meter Reading and Billing Process. The OEBRs and the Summary of Sales are submitted to the MRBC Chief/Supervisor for proper recording. He then turns over these OEBRs and Summary of Sales to the Bill Custodian for proper recording and disposition.

Thereafter, the Bill Custodian issues the OEBRs (with corresponding Summary of Sales) to the respective Service Center Heads who shall officially acknowledge receipt for proper accountability, control and monitoring. The Service Center Heads will properly dispose these OEBRs to his respective authorized collectors for collection.

#### **5. Collection – Remittance - Deposit Process**

Under this process, the Field Collectors receive payments from member-consumers for their power bills and issue them the Official Electric Bill Receipts (OEBR) as proof of their payment. They will detach the collection stubs from these OEBR which shall be their bases for remittance. In instances where the consumers proceed to the office to pay their power bills but their OEBRs are with the collectors on field collection, they will be issued Official Receipts (OR) in lieu of the OEBR. These OEBRs will be properly disposed of upon return from field collection.

Then the Field Collectors remit/submit their collection to their Service Center Heads and shall be issued Official Receipts as proof of their remittance. Then they will accomplish the Daily Collection List based on the collection stubs to determine the amount of their remittance. The list and the collection stubs will be submitted to the Service Center Head as bases and reference.

The Service Center Heads will subsequently deposit these collections to the Depository Banks. The office collections that are properly accounted for shall likewise be deposited to the Depository Banks.

#### **6. Bank Collection Process**

Under this process, the member-consumers may pay their power bills either directly to the bank or through on-line remittance. After payment, they shall be issued their corresponding OEBR as soon as payments/remittances are properly verified in the Cooperative's bank accounts.

**7. Disconnection Process**

This process starts after the concerned offices made a summary of delinquent member-consumers. Once identified, they will be informed of their non-payment. Once the member-consumers have been informed of such fact, the disconnection notices shall be prepared. These will be distributed to the delinquent member-consumers. The list of disconnected consumers and other field findings shall be submitted to the FSD & ISD for monitoring.

**8. Reconnection Process**

This process starts after payment for Electric Bills by delinquent member-consumers and recovered power bills by apprehended consumers based on the computation of the Cashier. Upon payment, the receipt shall be issued to the member-consumers. Then, the Reconnection Order shall be prepared by the Complaints Clerk/CWDO. The materials necessary for the reconnection shall be prepared first and withdrawn from the warehouse before the execution of reconnection by the Reconnection Crew. The Reconnection Order shall be accomplished and the copy shall be furnished to the concerned departments for recording and monitoring.

**9. Requisition Process**

Under this process, the materials and supplies needed are requested through Requisition Slips subject to the approval of the General Manager.

**10. Procurement Process**

This process starts upon the request for materials and supplies. Under this process, the Procurement Committee will determine the appropriate mode of procurement for the materials and supplies requested.

If the total cost of the materials and supplies requested is below One million Pesos (Php 1,000,000.00), the procurement shall be through simple or personal canvass. Under this mode, at least three (3) canvass sheets are issued and duly accomplished by known suppliers and returned for consideration. These canvass sheets shall be evaluated by the Procurement Committee. The supplier with the lowest responsive quotation shall be awarded the Purchase Order.

On the other hand, if the total cost of the materials and supplies requested is One Million Pesos (Php 1,000,000.00) and above, the procurement will be through public bidding. For public bidding, invitations to bid are through publication in a newspaper of local or national circulation. The quotations of these suppliers shall be considered by the Bids and Awards Committee according to the set rules, guidelines and procedures.

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**11. Material Issuance Process**

Under this process, the materials and supplies are issued through Requisition Vouchers subject to the approval of the General Manager.

**12. Receiving Process**

Under this process, the Inspectorate Committee checks and inspects the materials and supplies purchased for status and quality upon delivery before these materials and supplies are officially received by the Warehouseman. The Receiving Report is then prepared and accomplished by the Warehouseman to be signed by the Inspectorate Team and approved by the General Manager.

**13. Warehousing Process**

The warehouse section of IFELCO has three (3) personnel responsible for the processing and recording of documents through computer system. Since IFELCO has no approved metering shop, it is not authorized to Calibrate/Reseal KWH Meter. Any request of calibration can be done at the approved metering shop nearby IFELCO.

**14. Inventory Monitoring and Issuance**

Materials and supplies in the warehouse are monitored and controlled through a periodic conduct of inventory or physical count which is conducted once a year.

**15. Troubleshooting and Maintenance Process**

This process involves reports and requests submitted by member-consumers or employees of each department, such as Brownouts/Line Maintenance/Tapping & Reconnection. The resolution of reported matters is within the functions of the TSD-OPD/CM, who must resolve the problems in accordance with IFELCO'S procedure. In case the problem occurs in a different collection centers, service centers and Sub-office, the Center Heads/Lineman-Meter Reader shall coordinate with the TSD to resolve the matter.

**16. Consumer Complaints & Dispatch Process**

This process starts when the Complaints Clerk/CWDO receives and records any complaint or request submitted by member-consumer. Upon receipt, a Service Memo shall be prepared and it will be forwarded to the appropriate department for proper action or implementation. The Complaints Clerk will record the copies of the Service Memo and furnish the attending department a copy for monitoring.

**17. Planning and Design Process**

The Planning & Design is essential in the improvement of Cooperative Operation. This process involves the construction and other important projects like System Loss Reduction Program, proposed electrification of barangays, sitios and other office improvements. This process is under the direction of the TSD-OPD personnel, who must execute the same in accordance with IFELCO's flow chart to ensure smooth implementation of the proposed program or project.

**SECTION II. DETAILS OF BUSINESS SEGMENTS**

Currently IFELCO is engaged in four (4) business segments out of the seven (7) distribution and related activities business segments provided under Section 4.4 of the Business Separation Guidelines, as amended, namely: Distribution Services Business Segment, Distribution Connection Services Business Segment, Regulated Retail Services Business Segment and Related Businesses Business Segment. IFELCO intends to adopt the remaining three (3) business segments in the event that the cooperative will be engaged into such, using the same methodology on separation. Below are the descriptions of each of the four (4) business segments IFELCO is currently engaged in, to wit:

**1. Distribution Services Business Segment**

This segment comprises the provision of Distribution Service, namely:

- a. 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);
- b. 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);
- c. Planning, maintenance, augmentation and operation of the Distribution System;
- d. 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 (whether such services are provided to those end-users or to Suppliers or to any other person).

**2. Distribution Connection Services Business Segment**

This segment comprises the provision of Distribution Connection Services, namely:

- a. 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:
  - (i) from the facilities of persons which are directly connected to the Distribution System
  - (ii) from the Connection Point to the facilities of persons which are directly connected to the Distribution System;
- b. Planning, installation, maintenance, augmentation, testing and operation of Distribution Connection Assets; and
- c. Provision of other services that support any of the above services.

**3. Regulated Retail Services Business Segment**

This segment comprises the provision of Regulated Retail Services, namely:

- 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. Sale of electricity to end-users who are included on the Captive Market.

**4. Related Businesses Business Segment**

This segment comprises the provision of Related Businesses services, namely:

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

**SECTION III. ACCOUNTING SEPARATION**

IFELCO 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. Requirement for Audit

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#### **SECTION IV. DESCRIPTION OF SEPARATION**

IFELCO will remain as of this filing a single entity and will be unbundled through separation of employees and its assets as deemed appropriate. The separation will be through evaluation of workloads, job descriptions, qualifications and usage in the case of the fixed assets.

It will allocate its departments to its business segments. Likewise, departments with un- attributable costs, allocation shall be made using the appropriate allocation factors as prescribed in the ACAM.

IFELCO'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
- d. Detailed Structure Per Area

#### **SECTION V. MILESTONES AND HIGHLIGHTS**

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

#### **SECTION VI. PROGRAM FOR CODE OF CONDUCT**

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

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

7. Further, IFELCO is likewise submitting herewith for the Honorable Commission's consideration and approval, a set of Confidentiality Policies and Guidelines 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 "B" and "C,"** respectively.
8. Finally, IFELCO prepared an Accounting Separation Statement in accordance with the Accounting and Cost Allocation Manual (ACAM) for Electric Cooperatives, based on its Audited Financial Statements for the Year 2014, for the Honorable Commission's consideration. It is being submitted herewith together with the cooperative's 2014 Audited Financial Statements, 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, IFELCO's proposed BUSINESS SEPARATION AND UNBUNDLING PLAN (BSUP) be approved accordingly.

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

Finding the *Application* to be sufficient in substance, the Commission issued an *Order* and a *Notice of Public Hearing*, both dated 17 May 2017, setting the case for initial hearing on 30 June 2017.

On 20 June 2017, IFELCO filed its *Pre-trial Brief*.

During the hearing on 30 June 2017, only Applicant IFELCO appeared.

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 17 May 2017. The Commission verified IFELCO's substantial compliance with the jurisdictional requirements, all of which were marked as Exhibits "A" to "D-1", inclusive. Thus, the Commission acquired jurisdiction over the instant case.

The expository presentation of the Application was conducted by IFELCO's sole witness, Ms. Asuncion S. Bolla (Ms. Bolla), the Finance Services Management Manager of IFELCO. She was placed under oath, and her presentation formed part of her testimony.

Thereafter, the Commission propounded clarifying questions that Ms. Bolla was able to address.

No intervenor or oppositor manifested its intent to participate in the proceedings as such. Thus, upon Applicant's motion, the Commission issued an order of general default against anyone else not present during the hearing.

Furthermore, considering that there were no other parties to the instant case, the Commission adopted the matters contained in IFELCO's *Pre-Trial Brief*.



Thereafter, Ms. Bolla was called to the witness stand who testified under the same oath. She identified her Judicial Affidavit (JA) and her signature thereon, which were marked as Exhibits "E" and "E-1", respectively. The JA of Ms. Bolla was likewise adopted as her direct testimony in the instant case.

There being no other parties in the instant case, no cross-examination was conducted on Ms. Bolla. Thus, the examination of the said witness was declared terminated by the Commission.

On 24 July 2017, IFELCO filed its *Formal Offer of Evidence* (FOE).

Subsequently, the Commission issued an *Order* dated 08 March 2018 admitting the exhibits contained in the FOE submitted by IFELCO, and submitting the case for resolution.

### **ISSUE**

The issue for the Commission's resolution is whether or not the proposed Business Separation and Unbundling Plan (BSUP) of IFELCO meets the requirements of Section 36 of the EPIRA, Rule 10 of its IRR, ERC Resolution No. 49, Series of 2006, *A Resolution Amending the Business Separation Guidelines (BSG)*, and ERC Resolution No. 07, Series of 2012, *A Resolution Adopting the Accounting and Cost Allocation Manual (ACAM) for Electric Cooperatives*.

### **THE COMMISSION'S RULING**

The Commission resolved to approve the Business Separation and Unbundling Plan (BSUP) of Applicant IFELCO, 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:

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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 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 before the Commission their individual applications for the approval of their BSUP and Accounting and Cost Allocation Manual (ACAM), pursuant to 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 prescribing 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, IFELCO filed the instant *Application*.

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

IFELCO alleged 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).

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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*.

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At present, only four (4) business segments are existing, namely: DS, DCS, RRS, and RB. However, IFELCO proposed for additional business segments that the cooperative may undertake especially with the implementation of the Open Access and Retail Competition (OARC). The other three (3) business segments are the NRRS, the LRSS, and the 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 IFELCO's proposed business segments acceptable for being consistent with the approved ACAM, except for the WA segments<sup>3</sup>.

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

IFELCO, 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.

The Commission likewise approves the Chart of Accounts and Allocation Factors submitted by IFELCO for being consistent with what was prescribed in the approved ACAM.

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* IFELCO has no proposed transfer pricing methodology. Thus, the Commission resolved that the calculation of transfer prices should be based on fully allocated

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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*.

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 Ifugao Electric Cooperative, Inc. (IFELCO) subject to the following conditions:

- a) IFELCO'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) IFELCO 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, IFELCO 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 FY2018), pursuant to 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, 02 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: CBB/GCA/AJMO/FGD

LS: VGM/ARG/GLS/APV

**Copy Furnished:**

1. Atty. Nelson V. Evangelista  
Dechavez & Evangelista Law Offices  
*Counsel for Applicant IFELCO*  
Units 1609-1610, Tycoon Centre  
Pearl Drive, Ortigas Center, Pasig City 1605
2. Ifugao Electric Cooperative, Inc. (IFELCO)  
*Applicant*  
Molave St., Poblacion East, Lagawe, Ifugao
3. Office of the Solicitor General  
134 Amorsolo Street, Legaspi Village  
Makati City, Metro Manila

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4. Commission on Audit  
Commonwealth Avenue  
Quezon City, Metro Manila
5. Senate Committee on Energy  
GSIS Building, Roxas Boulevard  
Pasay City, Metro Manila
6. House Committee on Energy  
Batasan Hills  
Quezon City, Metro Manila
7. President  
Philippine Chamber of Commerce and Industry (PCCI)  
McKinley Hill, Fort Bonifacio  
Taguig
8. Office of the Provincial Governor  
Province of Ifugao
9. Office of the LGU Legislative Body  
Province of Ifugao
10. Office of the Municipal Mayor  
Aguinaldo, Ifugao
11. Office of the LGU Legislative Body  
Aguinaldo, Ifugao
12. Office of the Municipal Mayor  
Alfonso Lista, Ifugao
13. Office of the LGU Legislative Body  
Alfonso Lista, Ifugao
14. Office of the Municipal Mayor  
Asipulo, Ifugao
15. Office of the LGU Legislative Body  
Asipulo, Ifugao
16. Office of the Municipal Mayor  
Banaue, Ifugao
17. Office of the LGU Legislative Body  
Banaue, Ifugao
18. Office of the Municipal Mayor  
Hingyon, Ifugao
19. Office of the LGU Legislative Body  
Hingyon, Ifugao
20. Office of the Municipal Mayor  
Hungduan, Ifugao

21. Office of the LGU Legislative Body  
Hungduan, Ifugao
22. Office of the Municipal Mayor  
Kiangán, Ifugao
23. Office of the LGU Legislative Body  
Kiangán, Ifugao
24. Office of the Municipal Mayor  
Lagawe, Ifugao
25. Office of the LGU Legislative Body  
Lagawe, Ifugao
26. Office of the Municipal Mayor  
Lamut, Ifugao
27. Office of the LGU Legislative Body  
Lamut, Ifugao
28. Office of the Municipal Mayor  
Mayoyao, Ifugao
29. Office of the LGU Legislative Body  
Mayoyao, Ifugao
30. Office of the Municipal Mayor  
Tinoc, Ifugao
31. Office of the LGU Legislative Body  
Tinoc, Ifugao
32. Regulatory Operations Service  
17<sup>th</sup> Flr, Energy Regulatory Commission,  
Pacific Center Bldg., San Miguel Ave.,  
Ortigas Center, Pasig City