

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



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

ERC CASE NO. 2018-018 MC

**EASTERN SAMAR
ELECTRIC COOPERATIVE
(ESAMELCO),
Applicant.**

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D O C K E T E D
Date: JAN 29 2019
By: [Signature]

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 17 December 2018, Eastern Samar Electric Cooperative (ESAMELCO) filed an *Application* dated 12 December 2018 (Application), seeking the Commission's approval of its Business Separation and Unbundling Plan (BSUP) pursuant to Section 36 of Republic Act 9136, otherwise known as, the Electric Power Industry Reform Act of 2001 (EPIRA), and Rule 10 of its Implementing Rules and Regulations.

In the said *Application*, ESAMELCO alleged the following, among others:

1. ESAMELCO is an electric cooperative duly organized and existing under and virtue of the laws of the Republic of the Philippines with principal office at Brgy. Cabong, Borongan City, Eastern Samar;
2. It is the exclusive franchise holder issued by the National Electrification Commission (NEC), to operate an electric light and power distribution service in (23) municipalities of Eastern

Samar including the 597 barangays and 106,324 potential consumers;

3. Sec 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 functionality and structurally unbundle its business activities and rates in accordance with the sectors as identified in Section 5 hereof. The ERC shall ensure full compliance with this provision."*
4. Pursuant to the said mandate of the EPIRA as well as Rule 10 of its Implementing Rules and Regulations (IRR), the Honorable Commission promulgated Resolution No. 49, Series of 2006 otherwise known as *"Business Separation Guidelines, as Amended"* as well as Resolution No. 07, Series of 2012, Adopting the Accounting and Cost Allocation Manual (ACAM) for Electric Cooperatives;
5. Pursuant to and in compliance with the requirements of the foregoing law, rules and resolutions, ESAMELCO 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. ESAMELCO's proposed BSUP is composed of the following sections, to wit:

I. DETAILS OF CURRENT STRUCTURE

a) CORPORATE PROFILE

General Information

EASTERN SAMAR ELECTRIC COOPERATIVE, INC. (ESAMELCO) is registered with the National Electrification Administration (NEA) by virtue of Presidential Decree No. 269 on December 9, 1977. It is mandated to energize the 23 municipalities of Eastern Samar including the 597 barangays and 106,324 potential consumers.

Operational Milestone

ESAMELCO'S operation started when Borongan, the capital town of Eastern Samar was energized with a 100 KW genset on September 7, 1980. A series of typhoons in the 80's delayed the expansion program of the Cooperative. Total rehabilitation of damaged distribution

lines in the South increased the construction loans from the NEA. Self-generation was a daily burden and power operation decreased from 12 hours to 6 hours daily.

The commissioning of the 2.5 MVA substation in Brgy. Polangi, Taft in 1990 with power coming from NPC'S Tongonan Geothermal Plants provided a 24 hours electric service throughout the coverage area. In 2003, Taft substation was upgraded to 5 MVA.

In 1994, the 5 MVA substation in Brgy. Cabong was commissioned improving the voltage in Borongan, ESAMELCO'S load center, and the Southern Municipalities and eventually it was uprate to 15 MVA on April 2014 due to increasing demand. On September 30, 2002, the 5 MVA substation in Brgy. Buenavista, Quinapondan was also commissioned improving the power efficiency of the 9 municipalities in its coverage area.

All the 22 municipalities and 1 city are now energized. In August 2012, the interior town of Maslog was energized,

Facilities

ESAMELCO'S main office is located at Brgy. Cabong, Borongan, Eastern Samar. It has two (3) area offices namely: North Area Office located at Brgy. Polangi, Taft; South Area Office located at Brgy. Buenavista, Quinapondan, Eastern Samar and Central Area Office located at the central area of the City of Borongan Eastern Samar.

There are four (4) substations supplying power to the entire coverage area, 15 MVA Cabong substation serving the Municipalities of San Julian, Borongan, Maydolong, Balangkayan and Llorente; 5 MVA Buenavista substation covering the Municipalities of Hernani, Gen. MacArthur, Salcedo, Mercedes, Guiuan, Quinapondan, Giporlos, Balangiga and Lawaan; 5 MVA Polangi substation serving the Municipalities of Taft and Sulat; and the newly energized substation 5 MVA Nato substation serving the Municipalities of Can-avid, Dolores, Oras, San Policarpo, Arteche, Maslog and Jipapad.

Coverage Area of Distribution

The franchise area of EASTERN SAMAR ELECTRIC COOPERATIVE, INC. (ESAMELCO) covers the entire province of Eastern Samar, one of the 6 provinces in Region VIII (Eastern Visayas), situated in the eastern part of the island of Samar. It faces the Pacific Ocean and almost all of its municipalities are coastal towns. Eastern Samar's territorial boundaries are: Northern Samar on the north; Samar on the west; and on the south is Leyte

Gulf that merges to the south with Surigao Strait. Average distance between municipalities is 15 kms. Two municipalities, Maslog and Jipapad have no road network and accessible only by river or foot trail.

District	Municipality/ies
I	Borongan
II	Maydolong, Balangkayan, Llorente
III	San Julian, Sulat, Taft
IV	Can-avid, Dolores, Maslog
V	Oras, San Policarpio, Arteche, Jipapad
VI	Hernani, Gen. MacArthur, Salcedo
VII	Mercedes, Guiuan
VIII	Quinapondan, Giporlos, Balangiga, Lawaan

b) CORPORATE STRUCTURE

ESAMELCO's present organizational structure is divided into five (5) main departments, as follows:

1. Office of the General Manager (OGM)

The OGM is composed of one department namely Internal Audit Department and four sub-departments namely, Finance Services Department, Institutional Services Department, Technical Services Department and Area Offices. Among its duties and responsibilities include the following: a) Supervise the whole organization to ensure efficient and effective operation; b) keep the Board fully informed through written monthly, special and verbal reports as needed; and c) to advise and make recommendations to the Board on objectives, plans, policies and programs, and actions that is needed for the development of the program.

2. Internal Audit Department (IAD)

The IAD ensures effective and efficient implementation of internal control systems in all the departments of the cooperative. IAD's specific functions include the following, to wit: a) maintains records of authorized level of appropriations and expenditures; b) ascertains that purchases are in accordance with approved requisitions; c) evaluates financial transactions and assures that supporting papers are properly attached; d) ascertains that the cooperative's properties are adequately insured; e) supervises the inventory of bills; f) audits cash transactions; g) Check bank reconciliations; h) checks and/or inspects materials and supplies as to purchases; i) examines payroll both as to computation and payment; j) supervises the implementation of route control on all past due bills; k) re-audits cash

disbursements; and l) conduct inventory of materials, supplies, and special equipment.

3. Finance Services Department (FSD)

The FSD is responsible for record keeping and the sound financial management of the EC through an effective and systematic procedure in meter reading, billing and collection of its accounts receivable, and payment of loans. FSD's specific functions include the following: a) assist the General Manager in financial planning; b) supervises the recording of all the financial transactions in accordance with established accounting and financial control procedure; c) supervises the preparation and analysis of monthly and statistical report and ensures that these are submitted promptly; d) supervises the preparation of cash budget; e) plans and execute office procedure in accounting for construction and project cost and sees to it that work orders are closed upon completion of the project; f) supervises the maintenance of the accurate record of all capital investments and that depreciation lapsing schedule are kept on a current basis; g) ensures that disbursements of funds are in accordance with proprieties set by the General Manager in accordance with NEA standards and Audit Practice; h) consolidates and recommends approval of performance evaluation rating for the General Manager; and i) performs other functions as may be assigned from time to time.

4. Institutional Services Department (ISD)

The ISD is responsible for the delivery of shared support services, such as Human Resource, Office Administration, and Corporate Imaging. ISD's specific functions include the following: a) disseminates information; b) educates the would be consumers and the member-consumers; c) promotes consumer and community relation; d) campaigns for more connections (all types); e) resolves complaints and attends to inquiries and requests; f) translates promotion programs; g) conducts orientations to consumers' associations (BAPAs/SEPA's); h) conducts orientations / seminars / trainings to employees; i) spearheads district elections, annual meetings, anniversaries, and other occasions; and j) maintain employees 201 file records and administer payroll.

5. Technical Services Department (TSD)

The TSD ensures maximum utilization of the distribution assets and performance management. The specific functions of TSD include the following: a) directs and coordinates the design and construction of

electric facilities as authorized by the General Manager; b) advises and assists the Department staff to effect efficient system operations; c) institutes training programs for continues development of his staff to make sure they meet certain qualifications and work requirements of their respective units; d) appraises staff periodically to help them progressively raises the level of their performance; e) carries into effect the understanding and acceptance by each unit head all authorities, responsibilities and relationship within the organization; f) develops procedures for the day-to-day operations of the Department and the studies ways and means to improve these procedures for more effective operation; g) prepares necessary reports and submits the same to the General Manager; h) prepares annual assistance of the Division Manager's plans and develops engineering studies and system improvements; i) studies the system load growth and plans consultation with the Division Manager to assure adequate wholesome power supply; j) reviews and recommends for approval of application for primary line extensions; k) reviews and approves normal system improvements and operations and maintenance programs and schedules; l) reviews and secures the approval of the General Manager for major system improvements including distribution substation and general plant; m) reviews and recommends approval of contacts for large power service; n) recommends approval of all work orders; and o) accepts and performs other responsibilities and duties which may be assigned from time to time.

c) DESCRIPTION OF CURRENT PROCESS

1. New Connection

This process applies to new member-consumers who applied for service connection. There are certain process and procedures that are required from them. (See detailed description and flow chart)

2. Meter Reading and Billing

The Area Manager is responsible in preparing the meter reading schedule. It starts from the receipt of the Meter Reading Sheet from the billing Data Encoders up to submission of the accomplished Meter Reading Sheet to the billing Data Encoders. (See detailed description and flow chart)

3. Billing

The IAD is in-charge in the verification of billing transactions. This process starts from the receipt of monthly Meter Reading Sheets from the Meter Readers and from Engineering Section Head - for those with demand meters, up to posting of KWH consumption in the EBS 2000. (See detailed description and flow chart)

4. Collection

The Consumer Accounts and Control Division Chief is in-charge in the monitoring of all the collections and encoding of collection entries in the EBS 2000. This procedure starts after distribution of Power Bills up to collection. (See detailed description and flowchart)

5. Disconnection

The Consumer Accounts and Control Division Chief is in-charge in the monitoring of the disconnection process. This procedure starts from the printing of "List of Consumers for Disconnection" in the EBS 2000 up to actual disconnection. (See detailed description and flow chart)

6. Reconnection

The Consumer Accounts and Control Division Chief is in-charge in the assignment and monitoring of reconnection to Lineman in Main. This procedure starts from the printing of "List of Consumers for Disconnection" in the EBS 2000 up to actual disconnection. (See detailed description and flow chart)

7. Trouble Response

The Technical Services Department Manager (TSD Manager) is in charge in the overall management of TSD, engineering section and substation in Main. This process starts from the receipt of complaint from member-consumer-owner or information from substation on power loss up to repair or restoration. (See detailed description and flow chart)

8. Procurement of Capex and Non- Capex

This procedure starts from the accomplishment of a Requisition Voucher by an employee, up to the submission of request for payment to finance for processing. (See detailed description and flow chart)

II. DETAILS OF BUSINESS SEGMENTS

1. GENERATION ACTIVITIES

ESAMELCO has been planning to have its own generation facility to be called Amanhuray Mini-Hydro Power Plant in Brgy. Guinob-an, Lawaan Eastern Samar to augment the electricity needs of the consumers especially during peak hours, thereby providing reasonable price and service to consumers.

In case that the Amanhuray Mini-Hydro Power Plant shall be operational, ESAMELCO will submit a new BSUP for the approval of this Honorable Office.

2. DISTRIBUTION ACTIVITIES

ESAMELCO will adopt the six (6) distribution business segments provided in the Business Separation Guidelines, These business segments are further classified into regulated and non-regulated business segments. Below is the description of each business segments:

REGULATED BUSINESS SEGMENTS

1. DISTRIBUTION SERVICES

This segment has the following distribution services:

- 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

This segment has the following distribution connection services:

- 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

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:

- 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.

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.

4. LAST RESORT SUPPLY

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.

NON-REGULATED RETAIL SERVICE

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:

- a. Billing, collection and the provision of customer services to such end-users in their capacity as electricity consumers; or to such other customers in their capacity as purchasers of electricity.
- b. 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
- c. 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).

5. RELATED BUSINESSES

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

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

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 services or undertake the activities of this 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 operational activities of this business segment.

Revenues include all revenues generated from the provision of the services or the undertaking of the activities for this business segment.

Costs include all the relevant share of operating and maintenance costs and depreciation costs apportioned for this business segment.

III. SEGREGATION OF EMPLOYEES

Under the relevant business segment, the guidelines require the number of individuals who are engaged in the activities of the business segment and other business segments or business activities in which such individuals are engaged. This is to ensure that the costs of regulated services and activities are allocated on a fair and reasonable basis and reflect the efficient costs of the respective services and activities. ESAMELCO employees are hereby reasonably allocated to the business segment where his workload and man hours are attributable. Employees whose services are commonly shared by the business segments are allocated accordingly.

ESAMELCO has a total of 154 employees to be allocated into the different business segments. Employees that are not directly attributable to a business segment or shared by two or more business segments are allocated using allocation factors provided for by the ACAM. Likewise, in the event the ESAMELCO opt to engage into other business segments, namely Supplier of last resort (SOLAR), and Non-regulated retail services (NRRS) of concerned employees will be allocated into such services.

IV. ACCOUNTING SEPARATION

ESAMELCO would abide to the following accounting separation principles:

- a. Principles to Achieve Accounting Separation
- b. Allocation Principles
- c. Chart of Accounts
- d. Basic Accounting Principles
- e. Reporting Principles
- f. Audit Requirements
- g. Other requirements

V. MILESTONES AND HIGHLIGHTS

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

VI. PROGRAM FOR CODE OF CONDUCT

Pursuant to Sections 43(t) and 45 of Republic Act 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA) and Section 3(c)(iv) Rule 10 of its Implementing Rules and Regulations (IRR), the Company embraces and shall comply with the Resolution No. 31 series of 2006 so called the Code of Conduct for Competitive Retail Market Participants (referred hereafter as "Code¹") as promulgated by the Energy Regulatory Commission.

7. *Accounting Separation and Audited Financial Statements.* ESAMELCO has prepared as annex to the BSUP an Accounting Separation Statements in accordance with the Accounting and Cost Allocation Manual (ACAM) for Electric Cooperatives, based on its Audited Financial Statements for the Years 2016 and 2017;
8. In addition to the BSUP, ESAMELCO is likewise submitting herewith for the Honorable Commission's consideration and approval, a set of Confidentiality Policies and Guidance to be observed by concerned personnel involved in all BSUP transaction and processes,

PRAYER

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

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

The Commission has set the *Application* for hearing for determination of compliance with the jurisdictional requirements, expository presentation, pre-trial conference, and presentation of evidence on **12 March 2019 (Tuesday) at ten o'clock in the morning (10:00 A.M.), at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

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- 1) The petitioner's name and address;
- 2) The nature of petitioner's interest in the subject matter of the proceeding and the way and manner in which such interest is affected by the issues involved in the proceeding; and
- 3) A statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the case may file their Opposition or Comment thereon at any stage of the proceeding before Applicant rests its case, subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name and address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

All such persons who wish to have a copy of the *Application* may request from Applicant that they be furnished with the same prior to the date of the initial hearing. Applicant is hereby directed to furnish all those making such request with copies of the *Application* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Application* and other pertinent records filed with the Commission during the standard office hours.

WITNESS, the Honorable Chairperson and CEO **AGNES VST DEVANADERA**, and the Honorable Commissioner **CATHERINE P. MACEDA**, Energy Regulatory Commission, this 23rd day of January 2019 in Pasig City.


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for Legal

