

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



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF 1) BUSINESS
SEPARATION AND
UNBUNDLING PLAN AND
2) ACCOUNTING COST
ALLOCATION MANUAL, IN
COMPLIANCE WITH
REPUBLIC ACT 9136 AND
ITS IMPLEMENTING
RULES AND REGULATIONS**

ERC CASE NO. 2021-027 MC

**CAGAYAN ELECTRIC
POWER AND LIGHT
COMPANY. INC.
(CEPALCO),**

Promulgated:
October 07, 2021

Applicant.

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NOTICE OF VIRTUAL HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 15 September 2021, Cagayan Electric Power and Light Company, Inc. (CEPALCO) filed an *Application* dated 01 July 2021, seeking the Commission's approval of its Business Separation and Unbundling Plan (BSUP), and Accounting and Cost Allocation Manual (ACAM), in compliance with Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), and its Implementing Rules and Regulations.

The pertinent allegations of the *Application* are hereunder quoted as follows:

1. Applicant is a corporation duly organized and existing under Philippine law, with principal office address at CEPALCO Administration Building, Fr. Masterson Avenue, Upper Balulang, Cagayan de Oro City, and is franchised per Republic Act 9284, to construct, own, operate and maintain an electric distribution

system in the city of Cagayan de Oro¹, and in the municipalities of Tagoloan, Villanueva and Jasaan, all in the Province of Misamis Oriental.

2. Section 36 of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (the EPIRA, for brevity) and Rule 10 of the Implementing Rules and Regulations (IRR) of the EPIRA, require electric power industry participants to structurally and functionally unbundle its business activities.
3. According to Rule 10, Section 3 of the RRR, (*sic*) as well as the Business Separation Guidelines in Resolution No. 49, Series of 2006, as amended, requires the submission of a Business Separation and Unbundling Plan (BSUP) for approval by the Honorable Commission.
4. In compliance with the aforesaid provision, Applicant proposes to adopt and seeks approval of its Business Separation and Unbundling Plan (BSUP) and Accounting Cost Allocation Manual (ACAM), which are hereto attached as Annex "A".
5. The BSUP of CEPALCO is composed of five sections as stated in the attached BSUP-ACAM, as follows:
 - a. Current Structure
 - b. Business Segments
 - c. Accounting Separation
 - d. Milestones and Highlights
 - e. Code of Conduct for Retail Market Participants
6. Below are the salient features of the BSUP:
 - a. Current Structure

CEPALCO is registered with the Securities and Exchange Commission of the Philippines under SEC Registration No. 14210, as amended on July 11, 2008.

CEPALCO operates a distribution system to deliver electric power to Cagayan de Oro City and three nearby municipalities, namely, Tagoloan, Villanueva, and Jasaan Misamis Oriental, per Republic Act 9284.

As of May 2021, CEPALCO is serving 160,784 connections with corresponding peak demand of 259 MW and total monthly energy sales of 124GWh. CEPALCO's customers are classified into 6 classes: 1) Streetlights, 2) Residential, 3)

¹ Except the barangays of Baikingon, San Simon, Pagatpat, Tagpangi, Pagalungan, Taglimao, Tuburan, Pigsagan, Tumpagon, Bayanga, Mambuaya, Dansolihon, Tignapoloan, Besigan and a portion of Canitoan, all located in the City of Cagayan de Oro [Republic Act No. 9284, Section 1].

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General Service, 4) General Power, 5) Bulk, 69 KV, and 6) Bulk, 138 KV.

Organizationally, CEPALCO is composed of three divisions namely, Engineering Services Division, Customer Services Division, and Finance and Administrative Services Division. Under the divisions are departments. As of May 2021, CEPALCO employs a total of 393 regular personnel.

b. Details of Business Segments

Under CEPALCO's BSUP, it will have six business segments namely: 1) Regulated Distribution Services, 2) Distribution Connection Services, 3) Regulated Retail Services, 4) Non-regulated Retail Services, 5) Supplier of Last Resort Service, and 6) Related Business

Business Segments	Description
Regulated Distribution Services	<ul style="list-style-type: none"> • The conveyance of electricity through a Distribution System and the control and monitoring of electricity as it is conveyed through the system; • The provision of ancillary services (if any) that are provided using assets which form part of a Distribution System; • The planning, maintenance, augmentation and operation of a Distribution System; • The provision, installation, commissioning, testing, repair, maintenance and releasing of WESM-related meters that are not also used to measure the delivery of electricity to end-users or other customers; and • Billing, collection and the provision of customer services that are directly related to the delivery of electricity to end-users or that relate to the connection of such persons to a Distribution System.
Distribution Connection Services	<ul style="list-style-type: none"> • The provision of capability at each Connection Point to a Distribution System to deliver electricity to or take electricity from the Connection Point, and the conveyance of electricity: <ul style="list-style-type: none"> - from the facilities of persons which are directly connected to the Distribution System to the Connection Point; or - from the Connection Point to the facilities of persons who are directly connected to the Distribution System; • The planning, installation, maintenance, augmentation, testing and operation of Distribution Connection assets, and • The provision of other services that support any of the above services.

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Regulated Retail Services	This covers services pertaining to the sale of electricity to end-users who are included in the Captive Market: <ul style="list-style-type: none"> • billing, collection and the provision of customer services to such end-users in their capacity as electricity consumers; • energy trading (including the purchase of electricity and hedging activities) undertaken in connection with the sale of electricity to end-users included in the Captive Market; and • the sale of electricity to end-users included in the Captive Market.
Non-Regulated Retail Service	Billing, collection, customer service, energy trading and electricity sales for contestable market or for other customers who purchased electricity but are not End-users, <ul style="list-style-type: none"> • Provision, installation, commissioning, testing, repair, maintenance and reading of meters that are used to measure the delivery of electricity to customers in the contestable market or to customers who are not End-users (whether such services are provided to those customers, to Suppliers or to any other persons)
Supplier of Last Resort Service	Billing, collection, basic customer service, energy trading and electricity sales for SOLR customer.
Related Business	Undertakings that utilize the distribution system assets or staff.

c. Accounting Separation

The accounting principles, policies, procedures and allocation methodologies used by CEPALCO in separating the cost, revenues, assets, liabilities, reserves and provisions into the different business segments and ultimately in the preparation of the Accounting Separation Statements are anchored and are pursuant to Sections II, III and IV of the Business Separation Guidelines (BSG) as promulgated under ERC Resolution No. 49 Series of 2006.

The Accounting Separation Statements shall be representations of the General-Purpose Financial Statements that are also regularly prepared and submitted to the Bureau of Internal Revenue (BIR), Securities and Exchange Commission (SEC), and other government agencies.

d. Description of Separation

CEPALCO shall operate as one juridical entity. Its cost, revenues, assets, liabilities, provisions and reserves are initially to be segregated into the 6 regulated business segments (i.e., Regulated Distribution Services, Distribution

Connection Services, Regulated Retail Services, Non-Regulated Retail Business, Supplier of Last Resort Business and Related Business).

Separation of accounts shall be done by applying appropriate allocation factors which are derived based on the principles of revenue and cost allocation as prescribed under Section 3.4 of the BSG:

- i. Classification of revenue and cost into the business segments shall be based on causality or what cause the revenue and cost to arise. In line with Business Separation Guidelines, revenue and cost are classified as either Directly Attributable, Indirectly Attributable, or Unattributable to the business segments.
 - ii. Allocation factors are derived based on activity-based approach or any alternative method that is fair, reasonable and justifiable.
 - iii. Items that cannot be allocated to the business segment shall be included in the reconciliation (reconciling items) of the Accounting Separation Statement to the General-Purpose Financial Statement.
- e. Milestone and Highlights

CEPALCO shall implement the proposed BSUP-ACAM once approved by the Commission. Copies of the manual will be provided to appropriate departments and seminar or workshop will be conducted for employees who will be involved with the preparation of the Accounting Separation Statements.

Pending the required enhancement of the financial system, the existing allocation shall be done temporarily in MS Excel template. CEPALCO shall enhance its financial system to cater and automate the BSUP-ACAM requirements within one year from approval by the Commission.

- f. Code of Conduct for Competitive Retail Market Participants

CEPALCO commits to develop a plan to comply with Code of Conduct for Competitive Retail Market Participants upon implementation of RCOA in Mindanao. It will ensure that this will be strictly followed and observed by the Company's officers and employees.

- g. Accounting Cost Allocation Manual

CEPALCO's Accounting Separation Statement shall take off from the General- Purpose Trial Balance Accounts and Sub-account. Each account is fairly allocated and or identified to the various business segments using a "BSG Code" that is assigned to each trial balance account. The BSG

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Code is a combination of two sets of code composed of 7 digits each namely the "Allocation Code" and the Accounting Separation Statement (ASS Code). The "Allocation Code" will facilitate the segregation of the trial balance account into the different business segment using its corresponding allocation factor. The Accounting Statement Separation ("ASS") code corresponds to each account in the Accounting Separation Statement. It will facilitate conversion of the allocated trial balance amount into the different Accounting Separation Statement Accounts.

6. In support of this Application, Applicant most respectfully submits to the Honorable Commission for approval, the following document:

BSUP – Account and Cost Allocation Manual, attached and Annex "A".

PRAYER

WHEREFORE, it is most respectfully prayed of this Honorable Commission that after due proceedings, CEPALCO's Business Separation Unbundling Plan and Accounting and Cost Allocation Manual be approved accordingly.

Other just and equitable relief are also prayed for.

The Commission hereby sets the instant *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on the following dates and online platform for the conduct thereof, pursuant to Resolution No. 09, Series of 2020² dated 24 September 2020 and Resolution No. 01, Series of 2021, dated 17 December 2020 (ERC Revised Rules of Practice and Procedure)³:

Date	Platform	Activity
29 October 2021 (Friday) at nine o'clock in the morning (9:00 A.M.)	Microsoft Teams	Determination of compliance with jurisdictional requirements and expository presentation
05 November 2021 (Friday) at nine o'clock in the morning (9:00 A.M.)	Microsoft Teams	Pre-Trial Conference and Presentation of Evidence

² Entitled: "A Resolution Adopting the Guidelines Governing Electronic Applications, Filings and Virtual Hearings Before the Energy Regulatory Commission".

³ A Resolution Adopting the Revised Rules of Practice and Procedure of the Energy Regulatory Commission.

Any interested stakeholder may submit its comments and/or clarifications at least one (1) calendar day prior to the scheduled virtual hearing, via electronic mail (e-mail) at doCKET@erc.ph, copy furnish the Legal Service through legal@erc.ph. The Commission shall give priority to the stakeholders who have duly submitted their respective comments and/or clarifications, to discuss the same and propound questions during the course of the expository presentation.

Moreover, any person who have an interest in the subject matter of the instant case may become a party by filing with the Commission via e-mail at doCKET@erc.ph, copy furnish the Legal Service through legal@erc.ph, a verified Petition to Intervene at least five (5) calendar days prior to the date of the initial virtual hearing and subject to the requirements under Rule 9 of the ERC Revised Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 1) The petitioner's name, mailing address, and e-mail 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.

Likewise, all other persons who may want their views known to the Commission with respect to the subject matter of the case may likewise file through e-mail at doCKET@erc.ph, copy furnish the Legal Service through legal@erc.ph, their Opposition or Comment thereon at least five (5) calendar days prior to the initial virtual hearing and subject to the requirements under Rule 9 of the ERC Revised 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, mailing address, and e-mail address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

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Any of the persons mentioned in the preceding paragraphs may access the copy of the *Application* on the Commission's official website at www.erc.gov.ph.

Finally, all interested persons may be allowed to join the scheduled initial virtual hearing by providing the Commission, thru legal.virtualhearings@erc.ph, with their respective e-mail addresses and indicating therein the case number of the instant *Application*. The Commission will send the access link/s to the aforementioned hearing platform within five (5) working days prior to the scheduled hearing.

WITNESS, the Honorable Commissioners **ALEXIS M. LUMBATAN, CATHERINE P. MACEDA, FLORESINDA G. BALDO-DIGAL** and **MARKO ROMEO L. FUENTES**, Energy Regulatory Commission, this 24th day of September 2021 in Pasig City.



AGNES XST DEVANADERA
Chairperson and CEO


LS: SQD/LSP/MCCG

