

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



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF BUSINESS
SEPARATION AND
UNBUNDLING PLAN (BSUP)
PURSUANT TO SECTION 36
OF REPUBLIC ACT NO. 9136
AND RULE 10 OF ITS
IMPLEMENTING RULES
AND REGULATIONS**

ERC CASE NO. 2016-034 MC

**SORSOGON II ELECTRIC
COOPERATIVE, INC.
(SORECO II),**

Applicant.

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D O C K E T E D
Date: **APR 25 2018**
By: _____

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 25 November 2016, an *Application* dated 16 November 2016 was filed by applicant Sorsogon II Electric Cooperative, Inc. (SORECO II) seeking the Commission's approval of its Business Separation Unbundling Plan (BSUP), pursuant to Section 36 of Republic Act No. 9136 and Rule 10 of its implementing rules and regulations.

SORECO II alleged the following in its Application:

1. SORECO II is an electric cooperative duly organized and registered with the Cooperative Development Authority (CDA) and existing under and by virtue of the laws of the Republic of the Philippines, with principal offices at Brgy. Buhatan, Sorsogon City;

2. It holds an exclusive franchise from the National Electrification Commission to operate an electric light and power distribution service in the city of Sorsogon (Sorsogon and Bacon Districts) and the municipalities of Donsol, Pilar, Castilla, Gubat, Barcelona and Prieto Diaz, all in the province of Sorsogon;

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3. Section 36 of Republic Act No. 9136 otherwise known as the Electric Power Industry Reform Act of 2001 or "EPIRA", provides in part that " *Any electric power industry participant shall functionally and structurally unbundle its business activities and rates in accordance with the sectors as identified in Section 5 hereof. The ERC shall ensure full compliance with this provision.*"

4. Pursuant to 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 the "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, SORECO II 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 and other business into appropriate business segments and to have a clear separation of operations and accounts between its regulated and non-regulated activities.

6. **SORECO II's** proposed **BSUP** is composed of and divided into the following sections, to wit:

I. DETAILS OF CURRENT STRUCTURE

a) CORPORATE PROFILE

SORECO II was originally registered as a non-stock, non-profit electric cooperative on April 14, 1977 under the provision of the National Electrification Administration Act (RA 6038), which paved the way for the start of rural electrification program in the province of Sorsogon anchored under P.D. 269.

On August 9, 1996, SORECO II was issued a Certificate of Registration by the Cooperative Development Authority (CDA), acknowledging the conversion of SORECO II from non-stock to a stock cooperative in accordance with the provision of Republic Act 6938 also known as "The Cooperative Code of the Philippines."

SORECO II's Head Office is located at Barangay Buhatan, Sorsogon City, Province of Sorsogon. It has ten (10) Branch Offices located in the municipalities of Donsol, Pilar, Putiao, Castilla, Gubat, Barcelona, and Prieto Diaz, and in Sorsogon West, Sorsogon East and Bacon in the city of Sorsogon, which serve as collection centers in the respective municipalities and in Sorsogon City.

Financial and Statistical Report as of December 31, 2015: Active Consumer Accounts - 77,891; Residential consumers- 73,775; Low voltage consumers - 4,097; Higher voltage consumers - 19; Total KWH Sales - 84,564,976; Maximum Demand - 17.74; Number of employees- 272; Ratio of consumer per employee- 286:1; and No. of substations- 3.

b) CORPORATE STRUCTURE

SORECO II's present organizational structure which has been existent since 1977 is divided into eight (8) main departments briefly described as follows:

1. Office of the General Manager (OGM)

The OGM is composed of the Executive Assistant, Legal Researcher, Staff Assistant, Records Management Officer and a Secretary. The Branch Offices which are directly involved in the operation of their respective areas are also under the supervision of the Office of the General Manager.

2. Finance Services Department (FSD)

The FSD is composed of the Cashiering Division and the Accounting Division.

3. Member Services Department (MSD)

Under the MSD is the Member Services Division.

4. Technical Services Department (TSD)

The TSD is composed of the Operation and Maintenance, Planning and Design, Special Equipment Pilferage Prevention, Warehouse and Consumer Services and Power Use.

5. Internal Audit Department (IAD)

The IAD is composed of the Field and Technical Audit Division and the Management Services and Financial Audit Division.

6. Consumer Accounts Management Department (CAMD)

The CAMD is composed of the Meter Reading and Collection Division and the Billing and Systems Operation Division.

7. Human Resources Development Department (HRDD)

The HRDD is composed of the Personnel Services and Benefits Division and the General Services Division.

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8. **Corporate Planning Department (CPD)**

The CPD is composed of Corporate Planning Division and Energy Trading Office.

c) **DESCRIPTION OF FUNCTIONS**

1. General Membership

Their general duties and functions are to vote, participate in the General and Special Meetings of members, purchase from the Cooperative electric energy, 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 to pay the membership fee.

2. Board of Directors

The Board is fully responsible to member-consumers for the management of the internal affairs of the cooperative, for public relations and for relations with government agencies as well as the formulation of policies needed for the efficient and effective operation of the cooperative.

3. Office of the General Manager

Responsible for the over-all planning, organizing, directing, controlling and coordinating of all activities, programs and projects of the cooperative. The implementing arms of the Office of the General Manager are the different Departments and the District Offices.

4. Finance Services Department

The implementing arm of the General Manager in terms of the financial operations of the cooperative. It is responsible in the efficient and sound financial planning and operation of the Cooperative through budgetary controls, financial projections, cash management, consumer accounts management and financial data processing.

5. Member Services Department

The scope of responsibilities of MSD include developing and implementing programs and activities that will promote members understanding of the Cooperative to enhance their participation in its activities and concern for its welfare and development, effective consumer management education and development, cooperative affairs and corporate imaging, processing of membership/service connections,

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information campaigns and the conduct of annual general membership assemblies.

6. Technical Services Department

Responsible for the planning, design, construction and system improvement of the cooperative's distribution system; and for the warehousing of distribution line materials and equipment.

7. Consumer Accounts Management Department

The CAMD's basic responsibilities include accurate, complete and timely processing of power bills, maintains consumer billing records and accuracy and integrity of electronic data. It ensures systematic and accurate meter reading and billing and effective disconnection. The CAMD must see to it that highest collection efficiency is achieved monthly.

8. Human Resources Development Department

The HRDD is responsible in the cooperative's responsive organization structure, balance manpower complement development, safety, welfare and productivity. It also maintains safe working environment, office administration, equipment management and optimum utilization of cooperative's facilities. Maintains updated records of personnel, monitors employees attendance, receives and screens applicants, evaluate employee benefits and implement programs pertaining to the cooperative's employee welfares, benefits and services; maintain the cooperative's vehicle, offices and equipment.

9. Internal Audit Department

Responsible for updated bank reconciliation and other reconciling items, prepares audit reports, carry out cash count of collections, revolving funds and review TAR; monitor technical system and recommends suitable actions. It safeguards the cooperative's assets and properties, regularly monitors adequate Cooperative's overall accounting and financial system and reliable financial data. It also ensures compliance with policies, memoranda and guidelines issued by NEA, ERC and EC.

10. Corporate Planning Department

The Corporate Planning Department is basically accountable for the cooperative's overall strategic business planning, preparation and application of CAPEX and OPEX projects and regulatory compliance to the PDC and PGC, ERC, NEA, DOE, DMC/GMC reportorial requirements, policies and

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regulations. Also included in their functions is the direct participation to WESM and evaluation of power supply and demand, price determination. It conducts research studies for program and policies, for CAPEX/OPEX application and other compliances; consolidates, analyze, and evaluate plans, targets and accomplishments on the cooperative's operational performance besides preparing forecasted load of the system.

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

d) DESCRIPTION OF CURRENT PROCESS

1. Membership and Service Connection Process

The applicant submits the requirements and attends the membership briefing seminar on any of the scheduled days of the branch office. Upon completion of the requirements, inspection follows. Upon certification by the inspection team, the applicant pays the applicable fees for the service connection including the membership fee. An account number will be assigned and a membership I.D. will be served. Linemen install the kWh meter and service drop wire of the new member consumer.

2. Consumer Complaints & Dispatch Process

Complaints or service request of a consumer is attended and recorded by the CWDO. The CWDO forwards the service order to the maintenance crew. After the maintenance crew is done, they fill-up the service order indicating the time accomplished and the action taken. The CWDO then will prepares an accomplishment report.

3. Billing, Collection, Meter Reading, Disconnection/Reconnection Process

3.1. Meter Reading & Billing

Monthly, meter readers of each branch office are provided with read and bill gadget, wherein route and account number of consumers for reading are provided in reading the kWh consumption of consumers. SORECO II's read and bill gadget immediately provide the member- consumers their respective statement of accounts containing therein the total amount of consumers' monthly consumption. Data uploading of kWh readings from read and bill gadget is being done by the data controllers for evaluation and encoding purposes.

3.2. Collection Process

A consumer has the option to pay directly thru SORECO II Office or any designated collection center or paying stations like EC Pay, banks, on-line payments, or any accredited establishment. For payments made thru SORECO II offices, the designated teller shall issue

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Official Receipt to the customer. At the end of the day, the teller prints the collection report and prepares the corresponding deposit slips. The Branch Office Comptroller takes charge of depositing the collections with the depository banks of the cooperative. Daily collection reports together with the bank validated deposit slips are forwarded to the Finance Department for checking and final recording in the books of accounts.

3.3. Disconnection and Reconnection Process

The cooperative's disconnection process starts with the generating of the list of consumers for disconnection. This listing is checked by the OSS and dispatched to the concerned disconnection crews. At the end of the day, the disconnection crews submit accomplishment reports for consumer status updating in the BCMS. Reconnection of electric service to a disconnected consumer is only made once the consumer pays the reconnection fee and settles the unpaid electric bills. A service order is automatically forwarded to the CWDO for printing of the reconnection order. Upon reconnection, the date and time of accomplishment is posted in the BCMS.

4. Requisition and Procurement Process

Upon the General Manager's approval of the request, the procurement officer prepares the requisition voucher and determines or estimates the amount involved. Purchases of goods or services amounting to Php1 Million and above shall be subjected to public bidding. For purchases of goods or services below Php1 Million but above three hundred thousand, the Bids and Awards Committee handles the procurement by securing sealed quotations/canvass from at least 3 suppliers, after which, a Purchase Order is approved by the General Manager before purchasing the same. Emergency procurement is undertaken only in times where immediate action is necessary to avoid any delay in project/activity that would cause the cooperative's imminent loss of life and/or property. All emergency procurement will be based on canvass of prices from at least 3 suppliers. Procurement through direct purchase or negotiation may be allowed in cases where the competitive bidding is not feasible like in cases of sole distributorship and when there is failure in the bidding process for 3 times. Splitting of contracts / purchases is strictly prohibited.

5. Materials Inventory Process

The Warehouse Section Chief, after checking as to quality and quantity based on the approved Purchase Order of the cooperative, receives the materials from the suppliers. The warehouseman enters/inputs the materials received in the inventory system. Copies of Receiving Reports (RR) shall be printed and signed; together with the invoice and delivery receipt, one (1) copy is furnished to ISD for complete documentation then forwarded to FSD for processing of payments and another copy to IAD for monitoring and control.

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The Work Order Officer generates from the inventory system a monthly summary of RR for recording to Material Receipt Register (MRR). Issuance by the Warehouse Section Chief is based on the Request of Materials by the Department or Branch Office approved by the General Manager. Material Charged Tickets (MCTs) are prepared for every requisition, recorded and updated into the system.

6. Disbursements Process

This process is done manually from check preparation up to recording of disbursement into the Check Register (CR). Payables with complete supporting documents will be paid thru checks. Petty expenses and emergency purchases on the other hand is paid using the Petty Cash Fund (PCF).

7. Preparation of Monthly Financial Statements

All book balances are consolidated in the Working Trial Balance prepared by the Accounting Division Supervisor. From the Trial Balance, the Monthly Financial Reports such as the Income Statement, Balance Sheet, and Statement of Cash Flow are prepared. Other reports like Collection Efficiency, Accounting of RFSC Collections, Details of Capital Projects Disbursements, and other reports to NEA and ERC are also prepared using the said trial balance.

8. Pole Relocation Process

The concerned resident files request with the CWDO in the area offices which will then forward the said request to the TSD Planning and Design Section. Area engineer/staking crew shall proceed to the area and conduct inspection to locate possible relocation point for the pole. Upon submission of inspection report, Planning and design engineer shall prepare the new system design of the power lines and the bill of materials needed for proper costing. Incurred Costs shall be settled by the requestor to the cashier. Area engineer/concerned personnel shall then prepare job order and material request voucher and must be approved by the TSD manager. Approved job order, gate pass and materials shall then be issued to COMD for job implementation/execution. IAD and Audit Department shall monitor materials installed and job assembly afterwards.

9. Sole-use Transformer Installation

The member-consumer submits request for application for sole use of transformer to the CWDO of the Area Office having jurisdiction on the member-consumer's location. Request is forwarded to the TSD for evaluation according to system design of the applicant's premises. Planning and design engineer/personnel conduct site inspection and verify CFEI issued by the city/municipal inspector. If the transformer is owned by the applicant, TSD personnel conduct transformer testing to verify and confirm excellent condition of the transformer before installation. If the transformer is owned by the cooperative, TSD personnel prepare bill of materials and costing for the construction. Applicant must submit complete

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requirements and settle payment to the Cashier. Area engineer/concerned personnel then prepare job order and material request voucher. Approved job order, gate pass and materials shall then be issued to COMD for job implementation/execution. IAD and Audit Department monitor materials installed and job assembly afterwards.

10. Change Meter Process

The member-consumer submits complaint/request to the CWDO of the Area Office having jurisdiction on the member consumer's location. CWDO forwards the complaint/request to meter calibration personnel. Meter inspector conducts site inspection and meter evaluation on site to verify and confirm actual meter condition. If found in good condition, meter inspector submits report to CWDO to inform the complainant. If found defective, meter inspector shall submit report to CWDO regarding the status of the meter and recommends to change meter. CWDO prepares Change Meter Form and forward to the Area Office where the complainant is located. Area Office team of linemen conduct replacement of meter and retrieve and return the old kWh meter to the warehouse. CWDO prepares accomplishment report approved by the Area Manager and copy furnished to IAD, TSD, and FSD for updating of existing individual records.

11. Change Billing Name Process

The applicant files transfer of membership application to the CWDO and must submit complete requirements. Documents are then forwarded by CWDO to MSD. MSD process the new member application. MSD submits the new member application to the BOD for approval and issuance of board resolution. Approved application is forwarded to FSD and CAMD for updating of billing name and existing records. CAMD/MSD prepares accomplishment report and copy furnished to IAD, TSD, and FSD for updating of existing individual records.

12. Transfer Meter Process

The member-consumer files a complaint and a Complaint Form is filled-up at the CWDO of the Area Office having jurisdiction of the member-consumer's location. CWDO instructs the member-consumer to submit the needed requirements including CFEI issued by the city or municipal inspector if the facility where the meter is to be transferred is newly installed. Upon submission of requirements, the member-consumer settles the incurred cost to the Cashier. After payment, Area Office Meter Inspector personnel conduct site inspection, thereafter, Meter inspector prepares a report and Maintenance Crew execute transfer of meter and thereafter inform the CWDO to prepare the accomplishment report and copy furnished to IAD, TSD, and FSD for updating of existing individual records.

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13. Power Service Interruption Process

Concerned personnel of TSD or Area Offices prepare power service interruption (PSI) Form and submit to Energy Trading Office (ETO) for approval of schedule of power service interruption detailing complaints and significance of request. If not approved, it is rescheduled before week-ahead nomination. If approved, PSI form approved by ETO is returned to requesting office, copy furnished to ISD for public information thru local radio and TV broadcasting.

I. DETAILS OF BUSINESS SEGMENTS

Presently, SORECO II is only into four (4) business segments namely Distribution Services, Distribution Connection Services, Regulated Retail Services and Related Business however, the proposed BSUP includes the three (3) other business segments which are Last Resort Supply, Wholesale Aggregation, and Non-Regulated Retail Services provided under the Business Separation Guidelines, as amended, in anticipation with the time when the cooperative needs to engage into it using the same methodology on separation. These segments are classified into Regulated and Non-Regulated business segments, and identified as follows

1. Distribution Services Business Segment

This segment has the following distribution services:

- a) The conveyance of electricity through SORECO II's Distribution System and the control and monitoring of electricity as it is conveyed through SORECO II's Distribution System (including any services that support such conveyance, control or monitoring or the safe operation of the Distribution System);
- b) The provision of Ancillary Services (if any) that are provided using assets which form part a Distribution System;
- c) The planning, maintenance, augmentation and operation of the Distribution System;
- d) The provision, installation, commissioning, testing, repair, maintenance and reading of WESM- related meters that are not used to measure the delivery of electricity to end-users or other customers; and
- e) The 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.

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2. Distribution Connection Services Business Segment

This segment has the following distribution connection services:

- a) The provision of capability at each Connection Point to SORECO II's Distribution System to deliver electricity or to take electricity from the Connection Point and the conveyance of electricity:
 - a. from the facilities of persons which are directly connected to the Distribution System
 - b. from the Connection Point to the facilities of persons which are directly connected to the Distribution System;
- b) The planning, installation, maintenance, augmentation, testing and operation of Distribution Connection Assets; and
- c) Provision of other services that support any of the above services.

3. Regulated Retail Services Business Segment

This segment comprises the provision of regulated retail services, namely; services pertaining to the sale of electricity to end-users who are included in the Captive Market and includes:

- a) Billing, collection and the provision of customer services to such end-users in their capacity as electricity consumers;
- b) Energy trading (including the purchase of electricity and hedging activities) undertaken in connection with the sale of electricity to end-users who are included in the Captive Market; and
- c) The sale of electricity to end-users who are included on the Captive Market.
- d) The provision, installation, commissioning, testing, repair, maintenance and reading of meters that are used to measure the delivery of electricity to end-users who are included on the Captive Market.

4. Related Businesses Business Segment

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

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

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II. ACCOUNTING SEPARATION

SORECO II 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. Basic Accounting Principles

III. DESCRIPTION OF SEPARATION

SORECO II, as of the filing of this application remains a single entity and will be unbundled through separation of its employees and assets as may be appropriate. The separation will be through evaluation of workloads, job descriptions, qualifications and usage in the case of fixed assets. It will allocate its departments to the business segments. However, for departments with un-attributable costs, allocation factors will be utilized as prescribed in the ACAM.

SORECO II'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

IV. MILESTONES AND HIGHLIGHTS

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

V. PROGRAM FOR CODE OF CONDUCT

SORECO II hereby undertakes to adhere to the policies and procedures approved by the ERC in relation to the implementation of the distribution business segments under the Business Separation Unbundling Plan (BSUP) of an electric cooperative. It further commits to conduct training and developmental programs for employees to help ensure compliance with this plan.

SORECO II shall likewise comply with provisions set forth in ERC Resolution No. 31, Series of 2006, The Code of Conduct for Competitive Retail Market participants.

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

5. In addition to the BSUP, SORECO II is likewise submitting herewith for the Honorable Commission's consideration and approval, a set of Confidentiality Policies and Guidance to be

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observed by concerned personnel, together with a Board Resolution adopting certain sets of obligations imposed upon Distribution Utilities (DUs), among others, as provided under Article V of the Business Separation Guidelines (BSG), attached hereto and made integral parts hereof as **Annexes "B" and "C"**, respectively.

6. Finally, SORECO II is likewise submitting in support of the application its Accounting Separation Statements (Audited Amount) and Audited Financial Statements for Year 2014 and 2015, 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, SORECO II's proposed BUSINESS SEPARATION AND UNBUNDLING PLAN (BSUP) be approved accordingly.

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

The Commission has set the Application for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **7 May 2018 at one o'clock in the afternoon (1:00 P.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 Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 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 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 it 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 Commissioners **GLORIA VICTORIA C. YAP-TARUC**, **ALFREDO J. NON** and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 13th day of April 2018 in Pasig City.


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for Legal


LS:SLAN/KTB/APV