

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

IN THE MATTER OF THE  
APPLICATION FOR THE APPROVAL  
OF APPLICANT'S: (1) BUSINESS  
SEPARATION AND UNBUNDLING  
PLAN (BSUP); AND (2)  
ACCOUNTING AND COST  
ALLOCATION MANUAL (ACAM) IN  
ACCORDANCE WITH THE  
PROVISIONS OF SECTION 36 OF  
R.A. 9136 AND RULE 10 OF ITS  
IMPLEMENTING RULES AND  
REGULATIONS

ERC CASE NO. 2009-101 MC

TEAM (PHILIPPINES) ENERGY  
CORPORATION (TPEC),  
Applicant.

x-----x

DOCKETED  
Date: APR 27 2010  
By: \_\_\_\_\_

**DECISION**

Before this Commission for resolution is the application filed on November 9, 2009 by Team (Philippines) Energy Corporation (TPEC) praying for the approval of its: (1) Business Separation and Unbundling Plan (BSUP); and (2) Accounting and Cost Allocation Manual (ACAM), in accordance with the provisions of Section 36 of Republic Act No. 9136 (the Electric Power Industry Reform Act of 2001 or the EPIRA) and Rule 10 of its Implementing Rules and Regulations (IRR).

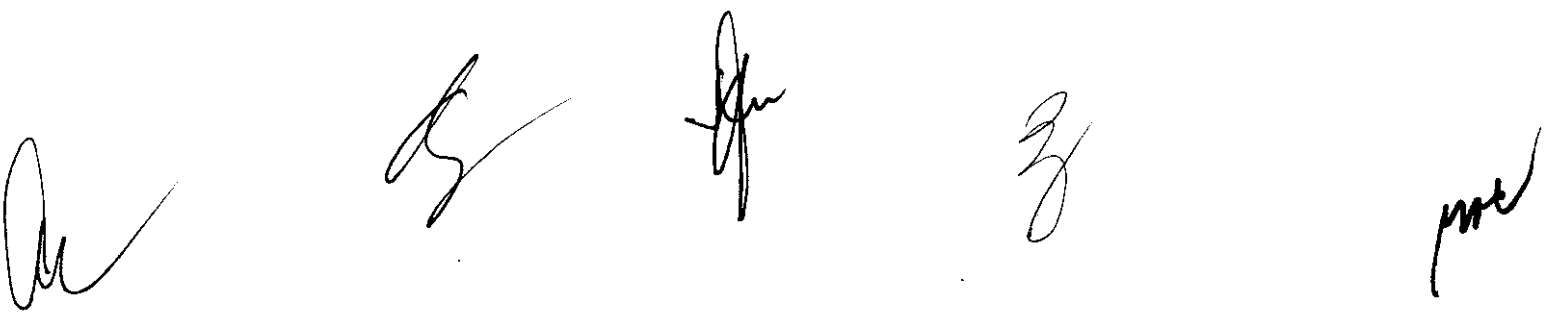
*[Handwritten signatures]*

In the said application, TPEC alleged, among others, that:

1. It is a domestic corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines with principal office address at the CTC Building, 2232 Roxas Boulevard, Pasay City;
2. It is a wholly-owned subsidiary of TeaM Energy Corporation ("TeaM Energy") which operates the Sual Plant and Pagbilao Plant. It is a Wholesale Aggregator with authority to sell electricity to distribution utilities as well as a Retail Electricity Supplier.
3. It is a holder of Wholesale Aggregator License No. WA-07-11-008 issued by the Commission;
4. In compliance with the provisions of Section 36 of R.A. 9136, and Rule 10, Section 3 (b) of its Implementing Rules and Regulations (IRR) requiring electric power industry participants to structurally and functionally unbundled their business activities as between generation, transmission, distribution and supply, as well as the terms and conditions of the Certificate of Registration issued by this Honorable Commission in its favor, it herein seeks for the approval of its Business Separation and Unbundling Plan \*BSUP);
5. The said BSUP attached to the application is in accordance with the Business Separation Guidelines as well as the Business Separation and Unbundling Plan Filing Package of the Commission; and
6. It also herein seeks for the approval of its Accounting and Cost Allocation Manual (ACAM) which is attached to the application. Its ACAM is also in accordance with the guidelines issued by the Commission.

Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated January 11, 2010, were issued setting the case for initial hearing on February 2, 2010.

In the same Order, TPEC was directed to cause the publication of the Notice of Public Hearing, at its own expense, once (1x) in a newspaper of



general circulation in the Philippines, with the said publication to be made not later than ten (10) days before the scheduled date of initial hearing.

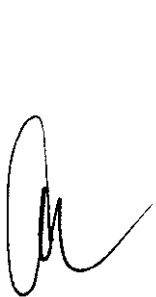
The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the initial hearing.

Likewise, the Office of the Mayor of Pasay City, Metro Manila was furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on its bulletin board.

On January 28, 2010, TPEC submitted its "Pre-Trial Brief".

During the February 2, 2010 initial hearing of this case, only TPEC appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.

At the said hearing, TPEC presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "C-3", inclusive. Thereafter, TPEC presented the following witnesses who testified in support of the application: a) Mr. Santiago S. Malacca and b) Ms. Ellen G. Bauto, its Accountant. In the course of their respective direct testimonies, additional documents were presented and marked as exhibits.



The direct examinations having been terminated, TPEC was then directed to submit its formal offer of evidence.

On February 4, 2010, TPEC filed its "Formal Offer of Exhibits" which is hereby admitted for being relevant and material to the final resolution of the case.

## DISCUSSION

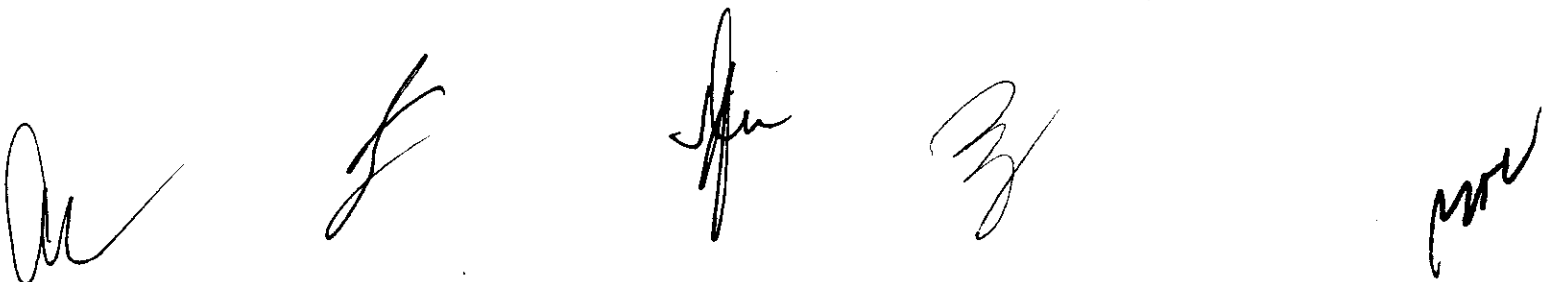
TPEC is a wholly-owned subsidiary of Team Energy Corporation which also owns and operates the Sual and Pagbilao power stations. TPEC has already secured from the Commission its Certificate of Registration as a Wholesale Aggregator (WA) on November 7, 2007 as well as its license as a Retail Electricity Supplier (RES) on December 2, 2008. TPEC is also a direct member of the Wholesale Electricity Spot Market (WESM).

Currently, TPEC markets and sells electricity supplied by the Sual and Pagbilao power plants to distribution utilities, economic zones and large industrial customers.

TPEC's BSUP consists of six (6) sections as prescribed in the BSUP Filing Package, as follows:

### 1) Current Structure

It submitted the diagrammatic representation of its corporate structure and the description of each of the activities undertaken by each department as well as the specific responsibilities of each position.



## 2) Details of Business Segments

In compliance with the BSUP Filing Package, it had adequately complied with this requirement and provided the details of its business segments including the allocation of costs for each segment, as follows:

### 2.1 TPEC's Business Segments

TPEC's BSUP classified its existing functions into Wholesale Electricity Supply and Retail Electricity Supply. Both business segments are competitive and non-regulated.

The Wholesale Electricity Supply business segment refers to the transactions related to the sale of electricity to distribution utilities. It comprises all wholesale aggregation services such as billing, collection and provision of basic customer services.

On the other hand, the Retail Electricity Supply business segment refers to transactions related to the sale of electricity to end-users. Its services include billing, collection, energy trading and provision of customer services to such end-users.

### 2.2 Man-power

The BSUP Filing Package requires the details of the business segments, such as the number of individuals who are engaged in the activities of the business segment or other business activities of the company.



In compliance with the aforesaid requirement, TPEC provided a description of its departments and the specific function of each personnel.

In the event that its business requirements would expand, it undertakes to hire additional manpower complement as needed.

### **2.3 Description of Assets**

TPEC provided a description of its assets or facilities that are utilized in both business segments in compliance with the BSUP Filing Package. Its assets and liabilities are identified with the different departments. The allocation of assets and liabilities is the same with the allocation of costs of the departments into the different business segments.

### **3) Accounting Separation**

The Accounting Separation Statements and the corresponding accounting policies used by TPEC are in accordance with the BSG. TPEC has been using the calendar year for its accounting period in accordance with paragraph 49 of the Philippine Accounting Standard (PAS) 1.

TPEC maintains the application of an accounting method that is consistent with the Generally Accepted Accounting Principles (GAAP) promulgated by the Accounting Standard Council applicable to accounting practices in the Philippines. The current GAAP which includes the Philippine Accounting Standards and the Philippine



Financial Reporting Standards (PFRS) are based on international standards. TPEC's books are maintained using the accrual basis of accounting as required by the PAS.

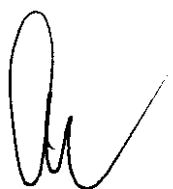
In compliance with the BSG, the ACAM of TPEC establishes an orderly, transparent, and traceable method of unbundling and separating its activities into business segments, the RES and WA.

### **3.1 Accounting and Cost Allocation Manual (ACAM)**

TPEC adopts different approaches in unbundling its business segments into the following: a) Direct Attribution; b) Payroll Cost Allocation; and c) Revenue-Based Costing. Revenues of departments as well as their assets, liabilities and costs are identified based on the concept of causation and are directly attributed to the business segment that "caused" it. Common accounts that cannot be directly attributed to a business segment are allocated using Net Revenue Factor and non-attributable costs are allocated to business segments proportionately based on payroll cost.

#### **3.1.1 Accounting System and Procedures**

TPEC's general accounting system is implemented using Oracle Financials. This financial system adapts to the current practices in the accounting field and is especially suited for medium and large-scale businesses as well as operates in a paperless environment. It is a web-based system where information can be accessed onsite and offsite and owns multi-user and multi-location features.



TPEC has Book of Accounts structured in such a way that the financial condition and the results of the operation of each business segment can be accounted for and its corresponding financial reports can be generated.

### **3.1.2 Cost Assignment/Allocation Methods**

It adopted different approaches in the unbundling exercise: (1) Direct Attribution; (2) Payroll Cost Allocation; and (3) Revenue-Based Costing. All direct and allocated costs, revenues, assets and liabilities between or among business segments are made traceable on the Book of Accounts.

### **3.1.3 Allocation Factor**

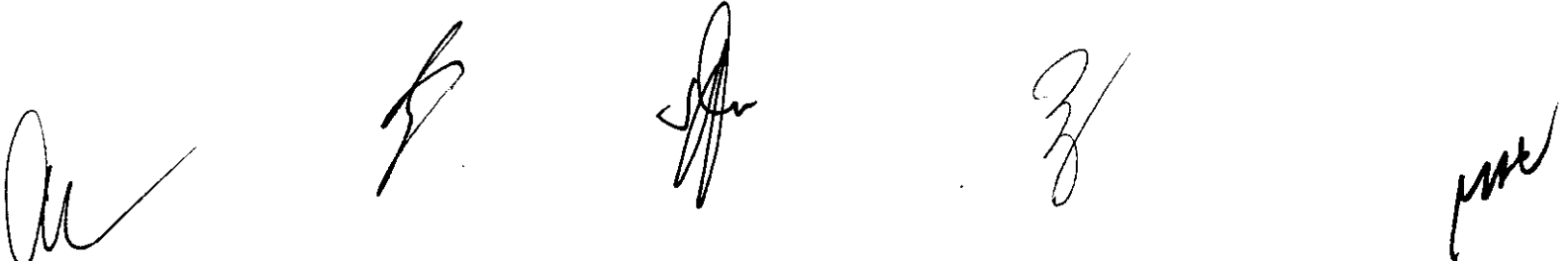
#### **Direct Attribution**

The current billing tags TPEC's customers to a particular business segment so that revenues are directly identified with each business segment.

Departments are also identified to each business segment and assets, liabilities, revenues and costs of these departments are also identified based on the concept of causation.

#### **Allocation of Common Accounts**

Common accounts are allocated using net revenue factor and non-attributable costs are allocated to the business segments proportionately based on payroll cost.



Net revenue factor – items other than income tax that cannot be directly identified to a business segment shall be allocated by the use of the revenue per business segment net of adjustments, not including relative costs. Under this approach, allocation ratios shall be derived by the revenue components of each business segment to the total revenue for all segments.

Payroll cost – departments whose activities cannot be directly attributed to the business segments shall be divided equally to all business segments, with the exclusion of specific items previously mentioned as not to be allocated to any of the business segments.

**Allocation of Revenue**

Revenue is segregated into the business segments using direct attribution as shown in the table below:

<b>Revenue Types</b>	<b>Retail Supply Services</b>	<b>Wholesale Aggregation Services</b>
Commercial and Industrial Sales	x	
Sale for Resale		x

The allocation factors developed by TPEC are based on the principles set forth in its ACAM and BSG.

**3.1.4 Transfer Pricing Principles and Methodologies**

The BSG requires that a transfer price must be the same as the price paid by an unrelated entity that acquires the same product, service or capital asset in an arms-length transaction. Under the



BSG, one of the accepted methodologies for the calculation of transfer prices for services, products and assets transferred between related entities/business segments is Cost Plus method.

The Cost Plus method of transfer pricing refers to the pricing of services, products or assets based on incremental costs plus an appropriate mark-up to reflect the share of joint and common costs that are attributable or may be fairly allocated to the product, service or asset.

TPEC proposes to use the aforementioned approach for transactions between business segments and with affiliates while maintaining the concept that transactions should not result in the cross-subsidization between business segments and affiliates.

Transactions between business segments as well as between affiliates will be governed by the following transfer pricing principles:

- a. Where a business segment provides a service, resource or product to other business segment or affiliate, it will charge no less than the cost based price;
- b. In purchasing a service, resource or product from another business segment or affiliate, it shall pay no more than Cost Plus; and



- c. A business segment shall sell assets to another business segment or affiliate at a price no less than the net book value of the asset sold.

**4) Description of Separation**

TPEC has set up separate accounts for its retail supply and wholesale aggregation businesses. While all of its departments handle both retail supply and wholesale aggregation business, a system to allocate assets, liabilities, cost and revenue has been established to ensure proper allocation and that these methods are in compliance with the BSG.


It also submitted its undertaking stating that it will comply with the obligations imposed on it under Article V of the BSG which pertains to the other obligations

**5) Milestones and Highlights**

It submitted its undertaking involving the implementation of the BSUP and ACAM to ensure that it is compliant with the requirements of the BSG.

**6) Code of Conduct for Competitive Retail Electricity Participants**

TPEC currently adheres to its own Code of Ethics and Business Conduct as enforced by its internal compliance officer and which serves as the core of its compliance program. The Code outlines the ethical behavior by which all employees must abide with at all times.



TPEC also provided an express undertaking that it shall abide by the provisions of Article V of the BSG which includes the compliance with the Code of Conduct for Competitive Retail Electricity Participants.

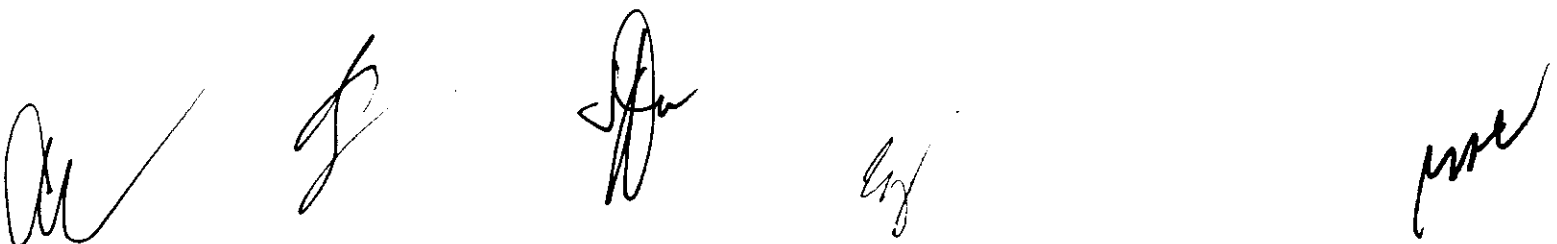
After a thorough evaluation of the instant application, it was disclosed that it is in accordance with Section 36 of R.A. 9136, Rule 10 of its IRR and the BSG, as amended.

**WHEREFORE**, the foregoing premises considered, the application filed by Team (Philippines) Energy Corporation (TPEC) for approval of its: (1) Business Separation and Unbundling Plan (BSUP); and (2) Accounting and Cost Allocation Manual (ACAM), in accordance with the provisions of Section 36 of Republic Act No. 9136 (the Electric Power Industry Reform Act of 2001 or the EPIRA) and Rule 10 of its Implementing Rules and Regulations (IRR) is hereby **APPROVED**, subject to its full compliance with the requirements of the BSG, as amended.

Relative thereto, TPEC is directed to submit, within five (5) months at the end of the financial year, the following documents:

- 1) The Accounting Separation Statements;
- 2) The Management Responsibility Statement;
- 3) The Auditor's Report pertaining thereto;
- 4) The General Information Sheet; and
- 5) The Compliance Report.

In the event that TPEC would change or alter the approved ACAM, it must submit to the Commission the following:



1. The precise details of the proposed changes;
2. The reasons and justifications for such alteration or changes; and
3. The effect of that change in the Accounting Separation Statements.

**SO ORDERED.**


Pasig City, March 29, 2010.

  
**ZENAIDA G. CRUZ-DUCUT**  
Chairman

  
**RAUF A. TAN**  
Commissioner

  
**ALEJANDRO Z. BARIN**  
Commissioner

  
**MARIA TERESA R. CASTAÑEDA**  
Commissioner

  
**JOSE C. REYES**  
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