

**Republic of the Philippines**

**ENERGY REGULATORY COMMISSION**

**San Miguel Avenue, Pasig City**

# **BUSINESS SEPARATION GUIDELINE**

**Draft**

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Pursuant to Section 36 of Republic Act No.9136 known as the Electric Power Industry Reform Act of 2001 and Rule 10.1 of the Implementing Rules and Regulations issued pursuant to that Act, the Energy Regulatory Commission hereby promulgates the following Guideline for business separation and structural and functional unbundling of the business activities of Electric Power Industry Participants.

# BUSINESS SEPARATION GUIDELINE

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**ARTICLE I**  
**GENERAL PROVISIONS**

**1.1 Purpose**

The purpose of this Guideline is to provide the framework and rules for the structural and functional unbundling of the business activities of Electric Power Industry Participants so as to, among other things:

- (a) implement the unbundling requirements of Section 36 of the Electric Power Industry Reform Act (the EPIRA) and Rule 10 of the Implementing Rules and Regulations issued pursuant to that Act (the IRR), namely to unbundle at least generation, transmission, distribution and supply activities and to have a clear separation of accounts between regulated and non-regulated business activities;
- (b) implement the requirements of Section 20 of the EPIRA and Rule 6.11 of the IRR that separate audited accounts be maintained for each related business undertaking in order to ensure that the transmission business conducted by TRANSCO or its Buyer or Concessionaire neither subsidizes in any way such business undertaking nor encumbers its transmission assets in any way to support such business;
- (c) implement the requirements of Section 26 of the EPIRA and Rule 7.5(c) of the IRR that separate audited accounts be maintained for each related business undertaking in order to ensure that the distribution business conducted by a Distribution Utility neither subsidizes in any way such business undertaking nor encumbers its distribution assets in any way to support such business;
- (d) 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; and
- (e) monitor compliance with the prohibition on cross-subsidies contained in this Guideline.

**1.2 Content of the Guideline**

This Guideline sets out:

- (a) the rules and principles for the separation of accounts necessary to satisfy the requirements of the EPIRA and the IRR as described in Section 1.1 above, including:

- (i) the accounting records that must be maintained;
  - (ii) the requirements and format for reporting to the ERC and when such reports must be provided to the ERC;
  - (iii) how revenues and costs must be allocated, including between regulated and non-regulated activities;
  - (iv) how certain intra-group transactions must be reported; and
  - (v) audit requirements; and
- (b) the structural and functional unbundling requirements that must be implemented and observed by Electric Power Industry Participants, including obligations relating to discrimination in the provision of services, the use of customer-related information, the disclosure of information relating to electricity networks and generation facilities, the cross-subsidization of non-regulated activities, business separation and common directors, officers and employees.

### **1.3 Definitions**

In this Guideline, unless the contrary intention appears, the following words and phrases have the following meanings:

<b>Accounting Separation Statement</b>	A statement described in Section 3.1.3.
<b>Accounting and Cost Allocation Manual (or ACAM)</b>	An Accounting and Cost Allocation Manual prepared and amended by an Electric Power Industry Participant in accordance with Section 2.2.
<b>Ancillary Services</b>	Those services that are necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the Grid in accordance with good utility practice, the Grid Code and the Distribution Code. Such services include those listed in clause 3.3.1.2 of the WESM Rules.
<b>Auditor</b>	An auditor who is registered as a certified public accountant under the Revised Accountancy Law (Presidential Decree No. 692) and who possesses the independence as defined in Part II Section 14 of the Code of Professional Ethics for Certified Public Accountants as promulgated by the Board of

	Accountancy and approved by the Professional Regulation Commission.
<b>Business Segment</b>	A Business Segment as defined in Article IV.
<b>Competition Rules</b>	The rules of that name made by the ERC pursuant to Section 45 of the EPIRA and Rule 11.8 of the IRR.
<b>Connection Assets</b>	With respect to the Grid, the components used to provide transmission connection services as defined in Section 4.3.6, and with respect to a Distribution System, the components used to provide distribution connection services as defined in Section 4.4.6.
<b>Connection Point</b>	With respect to the Grid, a point of connection of a User System or Equipment to the Grid, and with respect to a Distribution System, a point of connection of a User System or Equipment to that Distribution System.
<b>costs</b>	Includes both costs and expenses.
<b>Distribution Connection Assets</b>	The components of a Distribution System used to provide distribution connection services as defined in Section 4.4.6.
<b>Distribution System</b>	In respect of a Distribution Utility, the Distribution System (as defined in the Grid Code) operated by that Distribution Utility, together with such Subtransmission Systems as are connected to it and as are operated by that Distribution Utility.
<b>Electric Power Industry Group</b>	In relation to an Electric Power Industry Participant, that Electric Power Industry Participant and its Affiliates (if any).
<b>EPIRA</b>	Republic Act No.9136, otherwise known as the Electric Power Industry Reform Act.
<b>Equipment</b>	Equipment as defined in the Grid Code.
<b>Financial Year</b>	In respect of an Electric Power Industry Participant, the period covered by the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the Electric Power Industry Participant is a member.

<b>General Purpose Financial Statements</b>	The audited or duly attested annual financial statements of the members of an Electric Power Industry Group that are prepared (where so required) in accordance with Republic Act No. 8799, otherwise known as the Securities Regulation Code, and are provided to the Philippine Securities and Exchange Commission.
<b>Grid</b>	The Grid as defined in the Grid Code, together with such Subtransmission Systems as are connected to it and as are operated by TRANSCO or its Buyer or Concessionaire.
<b>Inter-segmental Cost</b>	A cost that arises from transactions between Business Segments or between a Business Segment and another activity that is conducted by a member of the relevant Electric Power Industry Group.
<b>Inter-segmental Revenue</b>	A revenue that arises from transactions between Business Segments or between a Business Segment and another activity that is conducted by a member of the relevant Electric Power Industry Group.
<b>Inter-segmental Transaction</b>	An Inter-segmental Cost and an Inter-segmental Revenue.
<b>IRR</b>	The Implementing Rules and Regulations issued pursuant to the EPIRA.
<b>Significant Inter-segmental Transaction</b>	An Inter-segmental Transaction, or a number of Inter-segmental Transactions intended to achieve a common commercial effect, that has, or collectively have, a value of more than 10 million Pesos in the Financial Year of the relevant Electric Power Industry Participant.
<b>Transmission Connection Assets</b>	The components of the Grid used to provide transmission connection services as defined in Section 4.3.6.
<b>User System</b>	User System as defined in the Grid Code.

In addition, words and phrases used in this Guideline which are defined in the EPIRA or the IRR have the meaning given to them in the EPIRA or the IRR (as the case may be).

**1.4 Business Separation and Unbundling Plan**

Rule 10 of the IRR requires each Electric Power Industry Participant to structurally and functionally unbundle their business activities in accordance with a business separation and unbundling plan prepared by the Electric Power Industry Participant and approved by the ERC. Upon submission by the Electric Power Industry Participant of its business separation and unbundling plan, the ERC may:

- (a) adopt that plan;
- (b) recommend modifications to that plan; or
- (c) reject that plan for revision and direct the Electric Power Industry Participant to file a new plan based on its comments.

The ERC must render its decision within 6 months from the filing of the business separation and unbundling plan, and compliance with the requirements of this Guideline (except as otherwise approved by the ERC) is a necessary component of each such business separation and unbundling plan.

## **ARTICLE II**

### **GENERAL PRINCIPLES FOR ACCOUNTING SEPARATION**

#### **2.1 General accounting policies**

2.1.1 The Accounting Separation Statements prepared by an Electric Power Industry Participant for the purposes of this Guideline must:

- (a) comply with the relevant ACAM prepared by that Electric Power Industry Participant under Section 2.2 (as amended from time to time in accordance with Section 2.2) and with the requirements of Articles III and IV;
- (b) comply with generally accepted accounting principles (as defined in rule 68 of the Implementing Rules and Regulations issued pursuant to Republic Act No.8799, otherwise known as the Securities Regulation Code), unless a particular provision of this Guideline requires non-conformity with those principles;
- (c) result in financial information that is relevant and reliable and that reflects the substance of the underlying transactions and events (see Section 2.3); and
- (d) report all material items (see Section 2.4).

2.1.2 The Accounting Separation Statements prepared for the purposes of this Guideline are additional to any other statutory financial reporting obligations of Electric Power Industry Participants and their Affiliates.

#### **2.2 Documentation of accounting policies used**

2.2.1 Each Electric Power Industry Participant must prepare an Accounting and Cost Allocation Manual which provides full and proper documentation of the accounting policies and principles used to prepare the Accounting Separation Statements in accordance with this Guideline, including:

- (a) the allocation methodologies used to allocate costs and revenues to and between Business Segments, including:
  - (i) a description of the basis, formula(e) and/or methodology(ies) used in respect of each cost and revenue item;
  - (ii) the reason for choosing the basis, formula(e) or methodology(ies); and
  - (iii) the quantification of any factors applied in allocating unattributable costs or revenues,

being in each case an allocation methodology that complies with the principles set out in Section 3.4;

- (b) depreciation policies and methodologies for each class of assets (depreciation charges must be calculated based on either the appraisal value or the historical cost of the relevant asset (book value), depending on whether or not those assets have been reappraised); and
- (c) the transfer pricing policies used for transactions between Business Segments or between a Business Segment and another activity that is conducted by a member of the relevant Electric Power Industry Group (including where such Business Segments and other activities are conducted within a single corporate entity), being policies that are consistent with the requirements of Section 3.6.

An Electric Power Industry Participant must provide the ACAM that is required to be prepared by it in accordance with this Section 2.2.1 to the ERC not later than 30 June 2004 and the date on which this Guideline applies to that Electric Power Industry Participant.

2.2.2 The ERC may, from time to time, require an Electric Power Industry Participant to make such changes to the ACAM prepared by it as the ERC considers appropriate (including replacing that ACAM with an ACAM prepared or approved by the ERC) and the Electric Power Industry Participant must thereupon make such changes and provide a copy of them to the ERC.

2.2.3 An Electric Power Industry Participant may from time to time change the ACAM prepared by it, in which case it must thereupon provide the ERC with a statement that sets out:

- (a) the precise details of the proposed change;
- (b) the reasons for that change; and
- (c) the effect of that change on the Accounting Separation Statements.

### **2.3 Substance to prevail over legal form**

For the purposes of Section 2.1.1(d), in determining the substance of a transaction or event, all its aspects, including the expectations and motivations for the transaction and/or events, must be considered. Where a group of transactions and/or events is designed to achieve an overall commercial effect, the group of transactions and events must be considered together.<sup>1</sup>

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<sup>1</sup> See also Accounting Standards Council (ASC) of the Philippines, *Framework for the Preparation and Presentation of Financial Statements*, paragraph 35.

## **2.4 Materiality**

For the purposes of Section 2.1.1(e), an item is considered material if its omission, misrepresentation or non-disclosure has the potential to prejudice the understanding of the financial position and nature of the business activities of an Electric Power Industry Group, or any member of it, which is gained by reading the relevant Accounting Separation Statements.<sup>2</sup>

## **2.5 Information must be verifiable**

An Electric Power Industry Participant must maintain (or ensure the maintenance of) general record keeping and accounting arrangements which enable information provided in the relevant Accounting Separation Statements to be verified.

## **2.6 Management Responsibility Statement**

The Accounting Separation Statements prepared by an Electric Power Industry Participant for the purposes of this Guideline must be accompanied by a statement which evidences the responsibility for the information contained in those Accounting Separation Statements (Management Responsibility Statement) in the form provided in Appendix H. A Management Responsibility Statement:

- (a) must be signed and dated by the chief executive officer of the Electric Power Industry Participant; and
- (b) must be approved by a resolution of the board of the Electric Power Industry Participant that is passed not more than 14 days before the date of the Management Responsibility Statement (a certified copy of this resolution must be attached to the Management Responsibility Statement).

## **2.7 Records and audit trails supporting Accounting Separation Statements**

2.7.1 An Electric Power Industry Participant must keep (or ensure the keeping of) accounting records that:

- (a) correctly record and explain the events and financial position of each of the relevant Business Segments;
- (b) enable an Auditor to properly form an opinion on the Accounting Separation Statements prepared by it in accordance with the requirements of this Guideline; and

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<sup>2</sup> See also Accounting Standards Council (ASC) of the Philippines, *Framework for the Preparation and Presentation of Financial Statements*, paragraphs 29 and 30.

- (c) provide sufficient information about transactions with and between the relevant Business Segments to allow an Auditor to reach an opinion about compliance with this Guideline.
- 2.7.2 An Electric Power Industry Participant must maintain (or ensure the maintenance of) an audit trail which includes:
- (a) all information contained in the Accounting Separation Statements prepared by it, including the allocation of costs to Business Segments and information in relation to transactions with related parties; and
  - (b) all relevant records, including but not limited to copies of contracts or engagements between related parties.

## **2.8 Audit requirements**

- 2.8.1 All Accounting Separation Statements prepared for the purposes of this Guideline must be accompanied by a report prepared, signed and dated by an Auditor (Auditor's Report) that:
- (a) contains the Auditor's opinion on whether the Accounting Separation Statements are presented fairly in accordance with the requirements of this Guideline, clearly identifying any exceptions and the effect of each such exception on the Accounting Separation Statements; and
  - (b) is in the format provided in Appendix I.
- 2.8.2 It is the responsibility of the Auditor to understand the requirements of this Guideline but the ERC is available to consult with the Auditor if necessary in order to enable the Auditor to obtain sufficient understanding of this Guideline to prepare the Auditor's Report referred to in Section 2.8.1.
- 2.8.3 An Electric Power Industry Participant must ensure that, under the terms of engagement of the relevant Auditor, that Auditor is obliged (at the ERC's request) to meet with the ERC and provide it with such information regarding the performance of its functions under this Section 2.8 as the ERC requires.
- 2.8.4 The ERC may appoint an Auditor, or require the Auditor engaged to provide the Auditor's Report under Section 2.8.1, to prepare a new or amended report that complies with Section 2.8.1 if:
- (a) the ERC becomes aware that information provided in the Accounting Separation Statements is incorrect or does not comply with the requirements of this Guideline; or
  - (b) in the ERC's opinion, the Auditor's Report prepared under Section 2.8.1 is unsatisfactory or does not comply with the requirements of this Guideline.

2.8.5 The relevant Electric Power Industry Participant must bear all of the costs associated with any work done by an Auditor under this Section 2.8.

## **2.9 Reporting Cycle**

2.9.1 The reporting period for the Accounting Separation Statements prepared for the purposes of this Guideline must be the Financial Year of the relevant Electric Power Industry Participant.

2.9.2 Notwithstanding Section 2.9.1, the ERC may require an Electric Power Industry Participant to provide it with such interim or additional accounting information as it specifies from time to time.

## **2.10 General Information Sheet**

2.10.1 All Accounting Separation Statements prepared for the purposes of this Guideline must be accompanied by a statement (General Information Sheet) that:

- (a) lists the name and company registration number of each member of the relevant Electric Power Industry Group;
- (b) contains an organizational chart showing the ownership relationships between those members; and
- (c) describes the activities undertaken by each of those members.

2.10.2 The General Information Sheet:

- (a) must be signed and dated by the chief executive officer of the relevant Electric Power Industry Participant; and
- (b) must be approved by a resolution of the board of that Electric Power Industry Participant, being a resolution that is passed not more than 14 days before the date of the General Information Sheet (a certified copy of this resolution must be attached to the General Information Statement).

## **2.11 Compliance Report**

2.11.1 All Accounting Separation Statements prepared for the purposes of this Guideline must be accompanied by a certificate (Compliance Report) that:

- (a) the relevant Electric Power Industry Participant has not violated any of the provisions of Article V during the period of the Accounting Separation Statements; or
- (b) if the relevant Electric Power Industry Participant has violated any of the provisions of Article V during the period of the Accounting Separation Statements, a statement of that fact, together with details of that violation.

2.11.2 The Compliance Report:

- (a) must be signed and dated by the chief executive officer of the relevant Electric Power Industry Participant; and
- (b) must be approved by a resolution of the board of that Electric Power Industry Participant, being a resolution that is passed not more than 14 days before the date of the Compliance Report (a certified copy of this resolution must be attached to the Compliance Report).

**2.12 Documents to be delivered to the ERC**

Within 4 months of the end of the Financial Year of an Electric Power Industry Participant, that Electric Power Industry Participant must deliver to the ERC:

- (a) the Accounting Separation Statements prepared by it for that period, being statements which are prepared in accordance with this Guideline;
- (b) the Management Responsibility Statement that is required to accompany those Accounting Separation Statements in accordance with Section 2.6;
- (c) the Auditor's Report on those Accounting Separation Statements prepared in accordance with Section 2.8;
- (d) the General Information Sheet that is required to accompany those Accounting Separation Statements in accordance with Section 2.10;
- (e) the Compliance Report that is required to accompany those Accounting Separation Statements in accordance with Section 2.11; and
- (f) 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 previously been provided to the ERC for the purposes of this Guideline.

**2.13 Additional Information**

An Electric Power Industry Participant must also provide to the ERC such additional information as the ERC may require to supplement the reporting requirements set out in this Guideline, including:

- (a) additional accounting, financial and/or non-financial information necessary for the determination of regulated rates under the EPIRA; and
- (b) other information that the ERC requires from time to time to enable it to fulfil its functions under the EPIRA effectively.

**ARTICLE III**  
**INFORMATION REQUIREMENTS FOR ACCOUNTING**  
**SEPARATION**

**3.1 Financial statements**

- 3.1.1 An Electric Power Industry Participant must maintain (or ensure the maintenance of) separate accounts for each Business Segment.
- 3.1.2 The accounts maintained under Section 3.1.1 must be maintained for each Business Segment as if that Business Segment were carried on by a separate company so that the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably allocable to, each Business Segment are separately identifiable in the books of the members of the relevant Electric Power Industry Group.
- 3.1.3 An Electric Power Industry Participant must prepare and submit to the ERC, in accordance with this Guideline, the following Accounting Separation Statements:
- (a) statement of income for each Business Segment;
  - (b) statement of assets and liabilities for each Business Segment;
  - (c) cash flow statement for each Business Segment;
  - (d) a total statement of income that aggregates all of the Business Segment statements of income into a single statement of income and that is reconciled to the statement(s) of income contained in the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the Electric Power Industry Participant is a member (for these purposes the reconciliation must clearly set out the adjustments that are made to each item in this total statement of income to reach the items shown in such statement(s) of income contained in the General Purpose Financial Statements); and
  - (e) a total statement of assets and liabilities that aggregates all of the Business Segment statements of assets and liabilities into a single statement of assets and liabilities and that is reconciled to the balance sheet(s) contained in the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the Electric Power Industry Participant is a member (for these purposes the reconciliation must clearly set out the adjustments that are made to each item in this total statement of assets and liabilities to reach the items shown in such balance sheet(s) contained in the General Purpose Financial Statements),

which in each case include information on Inter-segmental Transactions as required under Section 3.6.

- 3.1.4 The Accounting Separation Statements must be prepared on the basis that:
- (a) items that are directly attributable to a Business Segment are allocated accordingly;
  - (b) items that are indirectly attributable to a Business Segment are allocated using an appropriate allocation method; and
  - (c) items that are unattributable to a Business Segment are allocated using a fair and reasonable method,

in accordance with the principles set out in Section 3.4.

### **3.2 Format and content of Accounting Separation Statements**

The format and content of the Accounting Separation Statements must be consistent with the requirements provided in Appendices B (total statement of income and total statement of assets and liabilities, with reconciliation to General Purpose Financial Statements), C (Accounting Separation Statements specific to Generation Business Segments), D (Accounting Separation Statements specific to Transmission Business Segments), E (Accounting Separation Statements specific to Distribution Business Segments) and F (Accounting Separation Statements specific to Supply Business Segments), as applicable.

### **3.3 Cost basis and cost allocation standard**

- 3.3.1 The Accounting Separation Statements must be prepared on an historical cost accounting basis, except to the extent any relevant assets have been reappraised (in which case the Accounting Separation Statements must be prepared using the appraisal value of those assets).
- 3.3.2 A fully distributed cost allocation standard must be applied in the preparation of the Accounting Separation Statements so that all costs (including corporate overhead costs) are apportioned among Business Segments in accordance with the principles set out in Section 3.4.

### **3.4 Principles of revenue and cost allocation**

#### ***Allocation based on causation***

- 3.4.1 To the extent possible, revenues and costs must be allocated to Business Segments on the basis of *causation* - that is, each cost or revenue must be allocated to the activity that caused the cost or revenue to arise.
- 3.4.2 In practice, *causation* is determined by identifying one of the following relationships:

- (a) a directly traceable cause and effect relationship between the revenue or cost and the carrying out of an activity or provision of a service or product; or
- (b) a verifiable relationship between the revenue or cost and the carrying out of an activity or provision of a service or product; or
- (c) a direct causal relationship between a pool of common costs or revenues and the carrying out of an activity or provision of a service or product, such that allocation of the pool of common costs or revenues can be made using a relevant, reliable and verifiable factor, such as relative use.

***Allocation of direct, indirectly attributable and unattributable costs and revenues***

- 3.4.3 Direct costs (or revenues) are costs (or revenues) that are solely incurred (or generated) in the undertaking or provision of a particular activity or service or product, regardless of whether such costs (or revenues) are recorded in the accounts against the relevant item. Direct costs must be allocated to the relevant Business Segment based on this direct causal relationship.
- 3.4.4 Indirectly attributable costs (or revenues) are costs (or revenues) that are part of a common pool of costs (or revenues) but which can be attributed to a particular activity, service or product through a non-arbitrary, commercially sustainable and verifiable cause and effect relationship. Indirectly attributable costs (or revenues) must be allocated to the relevant Business Segment using an activity-based approach where possible.
- 3.4.5 Unattributable costs (or revenues) are costs (or revenues) that are part of a common pool of costs (or revenues) and which cannot be attributed to a particular activity, service or product through a non-arbitrary, commercially sustainable and verifiable cause and effect relationship. Unattributable costs (or revenues) must be allocated on a fair and reasonable basis which must be documented in the relevant ACAM.
- 3.4.6 If a causal relationship cannot be established for a particular cost (or revenue) without undue cost and effort, the cost (or revenue) may be allocated on a fair, reasonable and defensible basis which must be documented in the relevant ACAM.

***Disclosure of costs and revenue***

- 3.4.7 The Accounting Separation Statements must include a note that separately discloses for each cost and revenue heading in the statements of income for each Business Segment:
  - (a) the amount of direct costs or revenue;

- (b) the amount of indirectly attributable costs or revenue allocated to that Business Segment; and
- (c) the amount of unattributable costs or revenue allocated to that Business Segment.

***Depreciation***

- 3.4.8 The categories of depreciation must be the same as for depreciable asset values.
- 3.4.9 A depreciation charge must be allocated to the Business Segment to which the asset that gives rise to the relevant depreciation charge is attributed.

***Extraordinary items***

- 3.4.10 Where they arise, extraordinary items must be allocated to Business Segments on the basis of causation consistent with the methodologies used for other items. Such extraordinary items which are excluded from the segment reporting under paragraph 6 of SFAS31 (or IAS14) should be included in the statement of income for the relevant Business Segment for the purposes of this Guideline (refer to the Statement of Income contained in Appendices C to F).

***Interest and dividends payable and receivable***

- 3.4.11 Interest payable, interest receivable, dividends payable and dividends receivable must be included in the reconciliation of the total statement of income and/or total statement of assets and liabilities to the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the relevant Electric Power Industry Participant is a member. These items must not be allocated to individual Business Segments.

***Fixed assets***

- 3.4.12 Fixed assets must be allocated to the Business Segments in which they are utilized, in proportion to the usage attributable to that Business Segment. Where usage is not a reasonable allocation factor, allocation should occur on a rated capacity, power (MW), energy (kWh) or other basis which is reasonable for the activity undertaken. Such allocation methodology must be clearly described in the Electric Power Industry Participant's ACAM.

***Liabilities***

- 3.4.13 Liabilities must be allocated to the Business Segment that gives rise to the liability wherever possible. Liabilities, such as long term borrowings, that relate to the business as a whole should be excluded from individual Business Segment statements of assets and liabilities. These unallocated items should be included in the reconciliation of the total statement of assets and liabilities to the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the relevant Electric Power Industry Participant is a member.

***Income tax***

- 3.4.14 Income tax on operating profit must not be allocated to individual Business Segments. Income tax and related provisions should be included in the reconciliation of the total statement of income and total statement of assets and liabilities to the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the relevant Electric Power Industry Participant is a member.

**3.5 Capitalization policy**

The capitalization of expenditure for the purposes of the preparation of the Accounting Separation Statements must be in accordance with the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the relevant Electric Power Industry Participant is a member, and such expenditure must:

- (a) relate to the purchase, development or construction of a new asset<sup>3</sup>; or
- (b) increase the capacity or functionality or quality of output of an existing asset; or
- (c) significantly reduce the ongoing maintenance of an existing asset; or
- (d) extend the service life of an existing asset beyond what was expected when the asset was originally installed.

**3.6 Inter-segmental Transactions and transfer pricing principles**

***Inter-segmental Transactions must be disclosed***

- 3.6.1 For each Business Segment, the Electric Power Industry Participant must disclose, by way of a note in the Accounting Separation Statements, the total value of Inter-segmental Transactions in respect of each of the other Business Segments within, and each of the other activities conducted by, the Electric Power Industry Group of which it is a member.
- 3.6.2 For each Significant Inter-segmental Transaction, the Electric Power Industry Participant must disclose, by way of a note in the Accounting Separation Statements, the costs and revenues that arise from that Significant Inter-segmental Transaction and a transfer journal that follows the principles of double entry bookkeeping and provides descriptions of:
- (a) the item;
  - (b) the balancing accounting entry; and

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<sup>3</sup> The borrowing costs which relate to a new asset prior to its commissioning and inclusion in the asset base can be capitalized using the provisions of paragraphs 4.5 and 11 of IAS23.

- (c) the Business Segment(s), or other activities, in whose statement of income the balancing entry or entries arise.
- 3.6.3 For the purposes of Sections 3.6.1 and 3.6.2, the relevant values, costs and revenues are to be calculated in accordance with Sections 3.6.4 and 3.6.5.

***Transfer pricing for Inter-segmental Transactions***

- 3.6.4 A transfer price is the cost recorded in relation to a service or product acquired by one Business Segment from another Business Segment or from another business conducted by a member of the relevant Electric Power Industry Group (irrespective of whether the two Business Segments, or the Business Segment and the other business, are within, or conducted by, a single member of the Electric Power Industry Group or are within, or conducted by, different members of the Electric Power Industry Group).
- 3.6.5 A transfer price must be the same as the price paid by an unrelated entity that acquires the same service or product in an arms-length transaction. For these purposes:
- (a) one or more of the acceptable transfer pricing methods described in Appendix G; or
  - (b) another transfer pricing method approved by the ERC,
- may be used.

## ARTICLE IV BUSINESS SEGMENTS

### 4.1 Introduction

The Business Segments for the purposes of this Guideline are as set out in this Article IV, each such Business Segment being illustrated diagrammatically in Appendix A (a single Business Segment may include activities that are conducted by more than one corporate entity).

### 4.2 Generation Business Segments

4.2.1 The single generation Business Segment is described below.

#### *Generation of Electricity and Provision of Ancillary Services Business Segment*

4.2.2 This segment comprises the generation of electricity (ie. the production of electricity, including through the use of a co-generation facility and Embedded Generators) and the provision of Ancillary Services (using generation assets).

4.2.3 The assets included in this Business Segment are all facilities and assets (including support plant) used for the production of electricity and the provision of Ancillary Services. The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities which are incurred, to provide the services or undertake the activities referred to in Section 4.2.2.

4.2.4 Revenues include all revenues derived from the sale of electricity and the provision of Ancillary Services referred to in Section 4.2.2, as well as revenues derived from the sale of related facilities, plant or assets.

4.2.5 Costs include all operating and maintenance costs of assets associated with the generation of electricity or the provision of Ancillary Services, and depreciation of such assets.

### 4.3 Transmission Business Segments

4.3.1 The five transmission Business Segments are described below.

#### *Transmission Services Business Segment*

4.3.2 This segment comprises the provision of transmission services – namely:

- (a) all services associated with the use of the Grid for the conveyance of electricity, being services the charges for which are regulated by the ERC; and
- (b) the planning, maintenance, augmentation and operation of the Grid; and the provision of Ancillary Services (if any) which are provided using the Grid.

- 4.3.3 The assets included in this Business Segment are all the facilities and assets (including support plant and transmission load and supply meters) used to provide the transmission services and Ancillary Services referred to in Section 4.3.2. The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities which are incurred, to provide the services or undertake the activities referred to in Section 4.3.2.
- 4.3.4 Revenues include all revenues derived from the provision of transmission services (through Transmission Charges) and the provision of Ancillary Services referred to in Section 4.3.2, as well as revenues derived from the sale of related facilities, plant or assets.
- 4.3.5 Costs include all costs associated with the management, maintenance and operation of Grid facilities and assets in order to provide the transmission services and Ancillary Services referred to in Section 4.3.2, and depreciation of such assets.

***Transmission Connection Services Business Segment***

- 4.3.6 This segment comprises the provision of transmission connection services – namely:
- (a) the provision of capability at each Connection Point to the Grid (by means of the Transmission Connection Assets for the Connection Point) to deliver electricity to or take electricity from the Connection Point; and
  - (b) the planning, maintenance, augmentation and operation of the Transmission Connection Assets referred to in paragraph (a).
- 4.3.7 The assets included in this Business Segment are all the facilities and assets (including support plant) used to provide the transmission connection services referred to in Section 4.3.6. The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities which are incurred, to provide the services or undertake the activities referred to in Section 4.3.6.
- 4.3.8 Revenues include all revenues associated with providing the transmission connection services referred to in Section 4.3.6, as well as revenues derived from the sale of related facilities, plant or assets.
- 4.3.9 Costs include all costs associated with the management, maintenance and operation of the Transmission Connection Assets in order to provide the transmission connection services referred to in Section 4.3.6, and depreciation of the Transmission Connection Assets.

***Related Businesses Business Segment***

- 4.3.10 This segment comprises the provision of all other services, and the carrying out of all other activities, that utilize transmission 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.
- 4.3.11 The assets included in this Business Segment are all the assets used directly, or a relevant share of the shared assets which are used, to provide the services, or undertake the activities, referred to in Section 4.3.10. The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities which are incurred, to provide the services or undertake the activities referred to in Section 4.3.10.
- 4.3.12 Revenues include all revenues generated from the provision of the services, or the undertaking of the activities, referred to in Section 4.3.10.
- 4.3.13 Costs include all operating costs and the relevant share of maintenance and depreciation costs apportioned in accordance with the principles set out in Section 3.4.

***System Operations Business Segment***

- 4.3.14 This segment comprises all activities and functions undertaken by TRANSCO or its Buyer or Concessionaire relating to its role as System Operator under the Grid Code, the Distribution Code and the WESM Rules, including the availment of Ancillary Services.
- 4.3.15 The assets included in this Business Segment are all facilities and assets (including support plant) used for undertaking System Operator functions. The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities which are incurred, to provide the services or undertake the activities referred to in Section 4.3.14.
- 4.3.16 Revenues include all revenues generated in relation to System Operator functions.
- 4.3.17 Costs include all operating costs, maintenance and depreciation costs associated with System Operator functions.

***Market Operations Business Segment***

- 4.3.18 This segment comprises all activities and functions undertaken by TRANSCO relating to its role as administrative supervisor of the Autonomous Group Market Operator (note: such role will cease once an independent entity is formed to act as the market operator).
- 4.3.19 The assets included in this Business Segment are all facilities and assets (including support plant) used for administratively supervising Market Operator functions. The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities which are incurred, to provide the services or undertake the activities referred to in Section 4.3.18.
- 4.3.20 Revenues include all revenues generated in relation to the administrative supervision of the Market Operator functions.
- 4.3.21 Costs include all operating costs, maintenance and depreciation costs associated with the administrative supervision of the Market Operator functions.

#### **4.4 Distribution Business Segments**

4.4.1 The six distribution Business Segments are described below.

##### ***Distribution Services Business Segment***

4.4.2 This segment comprises the provision of distribution services - namely:

- (a) all services associated with the use of a Distribution System for the conveyance of electricity, being services the charges for which are regulated by the ERC; and
- (b) the planning, maintenance, augmentation and operation of a Distribution System; and

the provision of Ancillary Services, if any, which are provided using the Distribution System.

4.4.3 The assets included in this Business Segment are all the facilities and assets (including support plant) used to provide the distribution services and Ancillary Services referred to in Section 4.4.2. The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities which are incurred, to provide the services or undertake the activities referred to in Section 4.4.2.

4.4.4 Revenues include all revenues derived from the provision of distribution services (through Distribution Wheeling Charges) and the provision of Ancillary Services referred to in Section 4.4.2, as well as revenues derived from the sale of related facilities, plant or assets.

4.4.5 Costs include all costs associated with the management, maintenance and operation of Distribution System facilities and assets in order to provide the distribution services and Ancillary Services referred to in Section 4.4.2, and depreciation of such assets.

##### ***Distribution Connection Services Business Segment***

4.4.6 This segment comprises the provision of distribution connection services - namely:

- (a) the provision of capability at each Connection Point to a Distribution System (by means of the Distribution Connection Assets for the Connection Point) to deliver electricity to or take electricity from the Connection Point; and
- (b) the planning, maintenance, augmentation and operation of the Distribution Connection Assets referred to in paragraph (a).

- 4.4.7 The assets included in this Business Segment are all the facilities and assets (including support plant) used to provide the distribution connection services referred to in Section 4.4.6. The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities which are incurred, to provide the services or undertake the activities referred to in Section 4.4.6.
- 4.4.8 Revenues include all revenues associated with providing the distribution connection services referred to in Section 4.4.6, as well as revenues derived from the sale of related facilities, plant or assets.
- 4.4.9 Costs include all costs associated with the management, maintenance and operation of the Distribution Connection Assets in order to provide the distribution connection services referred to in Section 4.4.6, and depreciation of the Distribution Connection Assets.

***Metering Services Business Segment***

- 4.4.10 This segment comprises the provision of metering services, namely the provision, installation, commissioning, testing, repair and maintenance of meters and meter reading.
- 4.4.11 The assets included in this Business Segment are all the assets used to provide the metering services referred to in Section 4.4.10. The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities which are incurred, to provide the metering services referred to in Section 4.4.10.
- 4.4.12 Revenues include all revenues associated with providing the metering services referred to in Section 4.4.10.
- 4.4.13 Costs include all costs associated with the management, maintenance and operation of the meters, and depreciation of the meters.

***Related Businesses Business Segment***

- 4.4.14 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.
- 4.4.15 The assets included in this Business Segment are all the assets used directly, or a relevant share of the shared assets which are used, to provide the services, or undertake the activities, referred to in Section 4.4.14. The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of

the shared liabilities which are incurred, to provide the services or undertake the activities referred to in Section 4.4.14.

4.4.16 Revenues include all revenues generated from the provision of the services, and undertaking of the activities, referred to in Section 4.4.14.

4.4.17 Costs include all operating costs and the relevant share of maintenance and depreciation costs apportioned in accordance with the principles set out in Section 3.4.

***Regulated Customer Services Business Segment***

4.4.18 This segment comprises the provision of regulated customer services, namely 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 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 in the Captive Market.

Regulated customer services also comprise billing, collection and the provision of customer services to End-users in connection with the delivery of electricity to them (not being services that are included in another Business Segment).

4.4.19 The assets included in this Business Segment are all the assets used directly, or a relevant share of the shared assets which are used, to provide the regulated customer services referred to in Section 4.4.18. The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities which are incurred, to provide the services or undertake the activities referred to in Section 4.4.18.

4.4.20 Revenues include all revenues associated with providing electricity services to customers referred to in Section 4.4.18.

4.4.21 Costs include all costs associated with the provision of the services referred to in Section 4.4.18, including the relevant share of the maintenance and depreciation costs of the assets used to provide the services referred to in Section 4.4.18.

***Non-Regulated Retail Services Business Segment***

4.4.22 This segment comprises the provision of non-regulated retail services provided by a Distribution Utility, namely the sale of electricity to End-users who are included in the Contestable 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 hedging activities) undertaken in connection with the sale of electricity to End-users who are included in the Contestable Market; and
- (c) the sale of electricity to End-users who are included in the Contestable Market.

4.4.23 The assets included in this Business Segment are all the assets used directly, or a relevant share of the shared assets which are used, to provide the regulated services referred to in Section 4.4.22. The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities which are incurred, to provide the services or undertake the activities referred to in Section 4.4.22.

4.4.24 Revenues include all revenues associated with providing electricity services to customers referred to in Section 4.4.22.

4.4.25 Costs include all costs associated with the provision of the services referred to in Section 4.4.22, including the relevant share of the maintenance and depreciation costs of the assets used to provide the services referred to in Section 4.4.22.

#### **4.5 Supply Business Segments**

4.5.1 The single supply Business Segment is described below.

##### ***Supply Services Business Segment***

4.5.2 This segment comprises supply services provided by a Supplier, namely the sale of electricity to End-users who are included in the Contestable 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 hedging activities) undertaken in connection with the sale of electricity to End-users who are included in the Contestable Market; and
- (c) the sale of electricity to End-users who are included in the Contestable Market.

4.5.3 The assets included in this Business Segment are all the assets used directly, or a relevant share of the shared assets which are used, to provide the services referred to in Section 4.5.2. The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities which are

incurred, to provide the services or undertake the activities referred to in Section 4.5.2.

- 4.5.4 Revenues include all revenues associated with providing the services referred to in Section 4.5.2.
- 4.5.5 Costs include all costs associated with the provision of the services referred to in Section 4.5.2, including the relevant share of the maintenance and depreciation costs of assets used to provide the services referred to in Section 4.5.2.
- 4.5.6 Liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities used to provide the services or undertake the activities referred to in Section 4.2.2.

## ARTICLE V

### OTHER REQUIREMENTS RELATED TO BUSINESS SEPARATION

#### 5.1 Prohibition on discrimination

A Distribution Utility must not, and must ensure that its Affiliates do not, unreasonably discriminate, whether directly or indirectly, between:

- (a) End-users who form part of the Contestable Market and who acquire electricity from a person other than the Distribution Utility or an Affiliate of the Distribution Utility; and
- (b) End-users who form part of the Contestable Market and who acquire electricity from the Distribution Utility or an Affiliate of the Distribution Utility,

in relation to the Distribution of Electricity, connection to the Distribution System operated by it, the provision, installation, commissioning, testing, repair or maintenance of meters, or the reading of meters.

#### 5.2 Disclosure of Information

5.2.1 A Distribution Utility must ensure that information:

- (a) which relates to an End-user who forms part of the Contestable Market; and
- (b) which is obtained by the Distribution Utility or its Affiliates in the course of distributing electricity to that End-user or providing connection, metering or meter reading services to that End-user,

is not used by that Distribution Utility or its Affiliates in connection with the sale, or offering for sale, of electricity to that End-user except with the written consent of that End-user.

5.2.2 A Distribution Utility must ensure that all information regarding the operational status and availability of the Distribution System operated by it is disclosed to all other Electric Power Industry Participants, as soon as practicable after that information becomes available, in such manner as is approved for that purpose by the ERC.

5.2.3 TRANSCO or its Buyer or Concessionaire must ensure that all information regarding the operational status and availability of the Grid is disclosed to all other Electric Power Industry Participants, as soon as practicable after that information becomes available, in such manner as is approved for that purpose by the ERC.

- 5.2.4 A Generation Company must ensure that all information regarding the operational status and availability of the facilities operated by it to generate electricity is disclosed to all other Electric Power Industry Participants, as soon as practicable after that information becomes available, in such manner as is approved for that purpose by the ERC.

**5.3 Prohibition on cross-subsidies**

- 5.3.1 A Distribution Utility must ensure that:

- (a) costs incurred in connection with activities undertaken by it or its Affiliates that are not allocated (in accordance with Articles II, III and IV) to the provision of services the price of which is regulated by the ERC are not included in the prices charged by the Distribution Utility or its Affiliates for the provision of such services; and
- (b) the assets comprising the Distribution System operated by the Distribution Utility are not encumbered except with the approval of the ERC or for the purposes of securing financial accommodation which is used solely to fund the maintenance, repair, augmentation, extension, replacement or operation of that Distribution System.

- 5.3.2 TRANSCO or its Buyer or Concessionaire must ensure that:

- (a) costs incurred in connection with activities undertaken by it or its Affiliates that are not allocated (in accordance with Articles II, III and IV) to the provision of services the price of which is regulated by the ERC are not included in the prices charged by it or its Affiliates for the provision of such services; and
- (b) the assets comprising the Grid are not encumbered except with the approval of the ERC or for the purposes of securing financial accommodation which is used solely to fund the maintenance, repair, augmentation, extension, replacement or operation of the Grid.

**5.4 Generation of electricity for Distribution Utilities**

- 5.4.1 If a Distribution Utility and its Affiliates collectively generate more than 50% of the total demand of the Distribution Utility, the Distribution Utility must immediately ensure that all electricity generated by the Distribution Utility and its Affiliates is generated by its Affiliates to the exclusion of the Distribution Utility. If, as a result of compliance by the Distribution Utility with this requirement, the Distribution Utility sources more than 50% of its total demand from bilateral power supply contracts with associated firms engaged in generation, and that constitutes a breach of Section 45(a) of the EPIRA, then that will also be a breach of the Competition Rules by virtue of Rule 14(7) of the Competition Rules.

5.4.2 For the purposes of Section 5.4.1:

- (a) the total demand of a Distribution Utility is determined for each trading interval and is the aggregate of the gross ex-post settlement quantities of electricity for all customer nodes for which the Distribution Utility is financially responsible as a customer under the WESM Rules;
- (b) the total demand of a Distribution Utility does not include its demand which is sourced from a generation facility that is connected to an isolated grid; and
- (c) an isolated grid is a transmission system or a distribution system which is not connected to a grid (as defined in section 45(a) of the EPIRA and Rule 11.4 of the IRR or otherwise determined pursuant thereto).

5.4.3 For the purposes of Section 5.4.2(a), words which are defined in the WESM Rules have the same meaning in that Section.

## **5.5 Restriction on activities of transmission business**

TRANSCO or its Buyer or Concessionaire must not engage in any of the following business activities:

- (a) power generation; or
- (b) the conveyance of electric power other than through the Grid; or
- (c) the sale of electricity; or
- (d) the business of an IPP Administrator.

## **5.6 Common directors, officers and employees**

An Electric Power Industry Participant must ensure that a director, officer or employee of it or of any of its Affiliates (collectively, the “First Corporate Group”), and any spouse, parent or child of such a director, officer or employee, is not also a director, officer or employee of an Electric Power Industry Participant or of any of that Electric Power Industry Participant’s Affiliates (collectively, the “Second Corporate Group”) where any entity that is included in the Second Corporate Group is not an Affiliate of an entity that is included in the First Corporate Group.

## **5.7 Sale of electricity to Contestable Market**

A Distribution Utility must not, and must ensure that its Affiliates do not, sell, advertise for sale or offer to sell electricity to the Contestable Market using a brand name, business name, trade mark, logo or other name or symbol that suggests any affiliation or other connection with that Distribution Utility.

**5.8 Code of Conduct**

An Electric Power Industry Participant must comply with, and ensure that its Affiliates comply with, such code of conduct as may be promulgated by the ERC to regulate matters relating to End-users.

**ARTICLE VI  
PENALTIES**

If the ERC is satisfied that an Electric Power Industry Participant:

- (a) has violated a provision of this Guideline; or
- (b) has failed to implement its Business Separation and Unbundling Plan as approved by the ERC; or
- (c) has failed to fully and promptly implement a decision of the ERC made under IRR, rule 10.3(e),

the ERC may, in accordance with the Complaint Procedure Rules promulgated by it, make such order or orders against the Electric Power Industry Participant as it considers appropriate, including all or any of the following orders:

- (d) an order requiring the Electric Power Industry Participant to stop engaging in the conduct that constitutes the violation;
- (e) an order requiring the Electric Power Industry Participant to do any act or thing to rectify the violation or to remedy or mitigate the consequences of the violation;
- (f) an order requiring the Electric Power Industry Participant to pay to the ERC a fine or penalty of not less than P50,000.00 and not more than P50,000,000.00;
- (g) an order requiring the Electric Power Industry Participant not to participate in Retail Competition and Open Access;
- (h) in the case of a Distribution Utility, an order not to operate in a Contestable Market;
- (i) in the case of a Supplier, an order suspending, revising or revoking the Supplier's license for the Supply of Electricity to End-users.

**ARTICLE VII  
SEPARABILITY**

If, for any reason, any provision or part of a provision of this Guideline is declared unconstitutional or invalid, those provisions which are not thereby affected will continue to be in full force and effect.

**ARTICLE VIII  
EFFECTIVITY**

Subject to the provisions of any other applicable law, this Guideline takes effect 15 days after its publication in two newspapers of general circulation.

Pasig City, [date]

**LETICIA V. IBAY**  
Acting Chairman

**MARY ANNE B. COLAYCO**  
Commissioner

**OLIVER B. BUTALID**  
Commissioner

**CARLOS R. ALINDADA**  
Commissioner

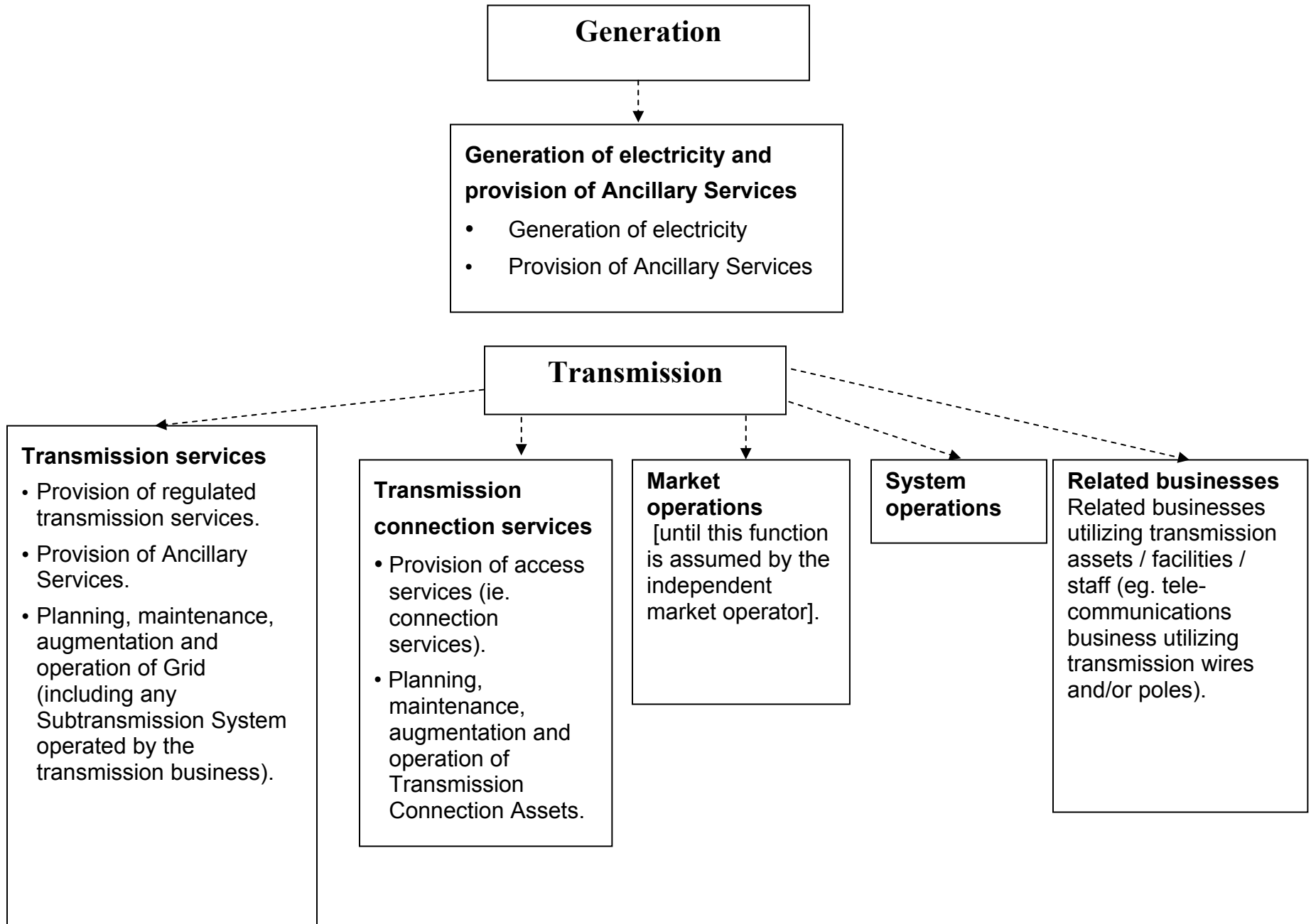
## **Business Separation Guideline**

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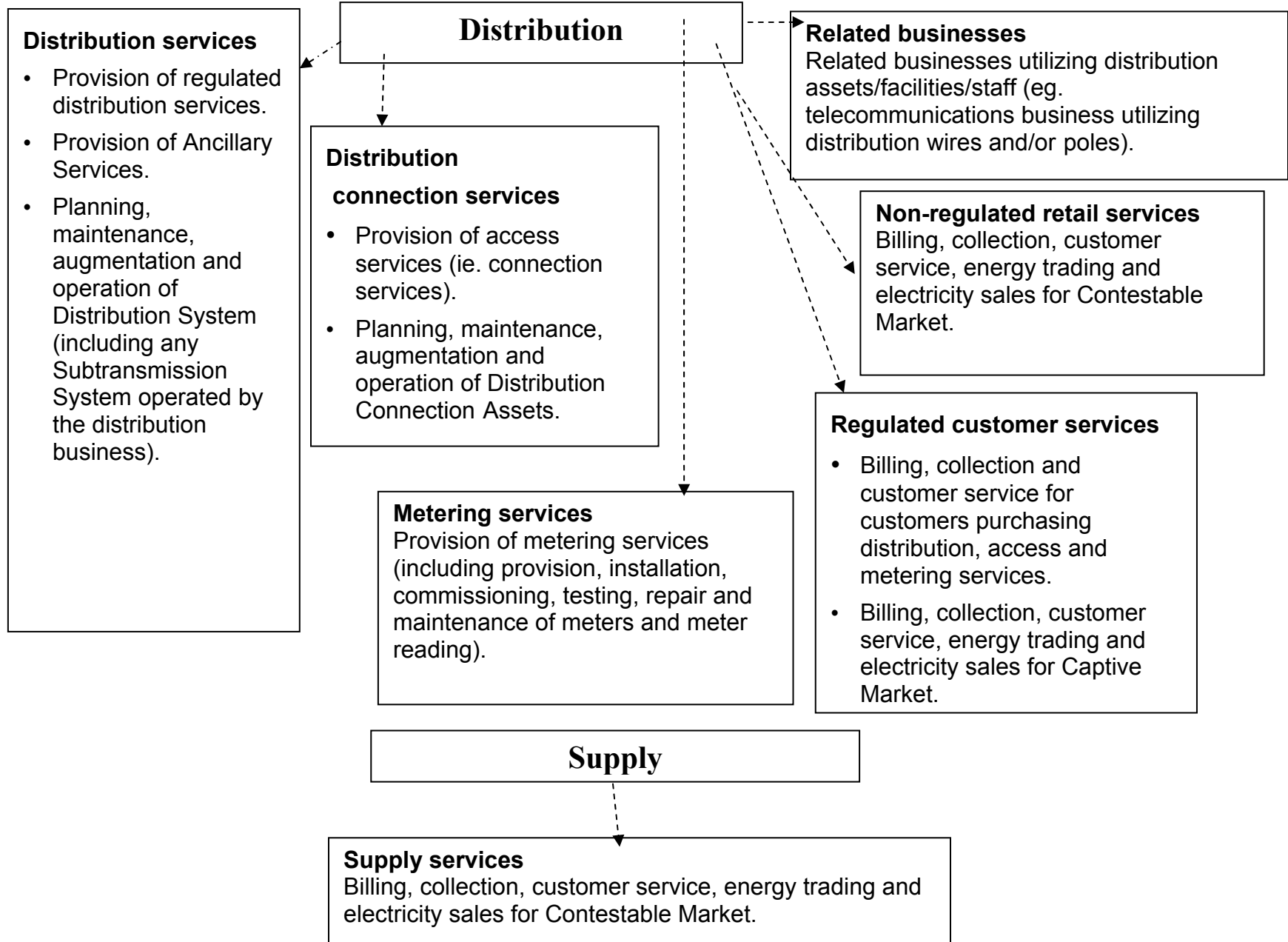
### **APPENDIX A – BUSINESS SEGMENTS**

The Business Segments for each principal activity (generation, transmission, distribution and supply) are illustrated in the following diagrams.

**Business Separation Guideline**



## Business Separation Guideline



**Business Separation Guideline**

**APPENDIX B – ACCOUNTING SEPARATION REPORTING FORMATS (ALL BUSINESS SEGMENTS AND RECONCILIATION TO GENERAL PURPOSE FINANCIAL STATEMENTS)**

Total Statement of Income for the year ended \_\_\_\_\_  
 Electric Power Industry Group \_\_\_\_\_

Description	Revenue	Operating Costs	Profit Before Interest & Tax	Interest & Tax Costs	Extraordinary Items	Operating Profit After Interest, Tax and Extraordinary Items
<b><u>ELECTRIC POWER INDUSTRY PARTICIPANT(S)</u></b>						
<b><u>Generation*</u></b> Generation Services						
<b><u>Transmission*</u></b> Transmission Services Transmission Connection Services Market Operations System Operations Related Businesses						
<b><u>Distribution*</u></b> Distribution Services Distribution Connection Services Metering Services Regulated Customer Services Non-regulated Retail Services Related Businesses						
<b><u>Supply*</u></b> Supply Services						
<b>Elimination of Inter-company Transactions</b>						
<b>Total</b>						
<b><u>RELATED BUSINESSES</u></b>						
Total revenues <sup>1</sup>						
Total costs <sup>2</sup>						
Other adjustments <sup>3</sup>						
<b>Elimination of Inter-company Transactions</b>						
<b>Total as per audited General Purpose Financial Statements</b>						

\*Complete for each Business Segment that the Electric Power Industry Group is engaged in

<sup>1</sup>Specified by type of revenue (account heading)

<sup>2</sup>Specified by type of cost (account heading)

<sup>3</sup>Specified by type or category (account heading)

## Business Separation Guideline

**Total Statement of Assets and Liabilities as at \_\_\_\_\_**  
**Electric Power Industry Group \_\_\_\_\_**

Description	Total Assets	Total Liabilities	Net Assets (Liabilities)
<b><u>ELECTRIC POWER INDUSTRY PARTICIPANT(S)</u></b>			
<b><u>Generation*</u></b> Generation Services <b><u>Transmission*</u></b> Transmission Services Transmission Connection Services Market Operations System Operations Related Businesses <b><u>Distribution*</u></b> Distribution Services Distribution Connection Services Metering Services Regulated Customer Services Non-regulated Retail Services Related Businesses <b><u>Supply*</u></b> Supply Services <b>Elimination of Inter-company Transactions</b> Long term borrowings Provision for deferred tax Provision for dividends payable Unallocated dividends receivable Unallocated interest payable Unallocated interest receivable Unallocated assets/liabilities <sup>2</sup>			
<b>Total</b>			
<b>RELATED BUSINESSES</b>			
Assets & Liabilities for Related Businesses			
<b>Shareholders' Equity</b> as per audited General Purpose Financial Statements			

\*Complete for each Business Segment that the Electric Power Industry Group is engaged in

<sup>1</sup>Adjustments will include assets and liabilities relating to the business as a whole and which cannot be allocated to individual Business Segments. All adjustments should be reported by type of transaction.

<sup>2</sup>Unallocated assets and liabilities should be specified individually. These items will include any assets or liabilities which relate to the business as a whole and are therefore not allocated to individual Business Segments.

**APPENDIX C – ACCOUNTING SEPARATION REPORTING FORMATS (GENERATION BUSINESS SEGMENTS)**

Generation, Electric Power Industry Participant \_\_\_\_\_  
 Statement of Income for the year ended \_\_\_\_\_

Account code or reference	Description	Generation Million Pesos
	Revenue from the sale of electricity and provision of ancillary services	
	Revenue from the sale of assets	
	Other revenue (analyzed as appropriate)	
	<b>Total Revenue</b>	
	Maintenance	
	Operating expenses (analyzed as appropriate)	
	Depreciation – Historic cost	
	Depreciation – Appraisal increment	
	<b>Total operating costs</b>	
	<b>Profit before interest and tax</b>	
	Interest	
	<b>Profit before tax and extraordinary items</b>	
	Tax	
	Extraordinary Revenue Items <sup>1</sup>	
	Extraordinary Expense Items <sup>1</sup>	
	<b>Profit after interest, tax and extraordinary items</b>	

<sup>1</sup> Includes all segment revenues and expenses which would otherwise be excluded under paragraph 16 of SFAS31 / IAS 14.

## Business Separation Guideline

**Generation, Electric Power Industry Participant \_\_\_\_\_**  
**Statement of Assets and Liabilities as at \_\_\_\_\_**

Account code or reference	Description	Generation Million Pesos
	<b>NON-CURRENT ASSETS</b>	
	Utility plant and equipment – Historic cost	
	Utility plant and equipment – Accumulated Historic depreciation	
	Utility plant and equipment – Appraisal increment	
	Utility plant and equipment – Accumulated Appraisal depreciation	
	Buildings and improvements – Historic cost	
	Buildings and improvements – Accumulated Historic depreciation	
	Buildings and improvements – Appraisal increment	
	Buildings and improvements – Accumulated Appraisal depreciation	
	Information technology– Historic cost	
	Information technology– Accumulated Historic depreciation	
	Motor vehicles– Historic cost	
	Motor vehicles– Accumulated Historic depreciation	
	Investments and advances	
	Land and development	
	Other non-current – Net of accumulated depreciation	
	<b>Total non-current assets</b>	
	<b>CURRENT ASSETS</b>	
	Cash and cash equivalents	
	Receivables	
	Investments	
	Prepayments	
	Materials and supplies	
	Other current assets	
	<b>Total Current Assets</b>	
	<b>TOTAL ASSETS</b>	
	<b>NON-CURRENT LIABILITIES<sup>1</sup></b>	
	Provisions <sup>2</sup>	
	Loans	
	<b>Total non-current liabilities</b>	
	<b>CURRENT LIABILITIES</b>	
	Trade payables and accrued expenses	
	Loans	
	Provisions	
	<b>Total current liabilities</b>	
	<b>TOTAL LIABILITIES</b>	
	<b>NET ASSETS/ (LIABILITIES)</b>	

Long term borrowings and any tax liabilities and standard provisions generally included in the balance sheet in the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the Electric Power Industry Participant is a member, and that relate to the business as a whole, should be excluded from the statement of assets and liabilities for individual Business Segments because these items relate to the business as a whole and not to the individual Business Segments. Unallocated items such as these should be included in the reconciliation of the total statement of assets and liabilities to those General Purpose Financial Statements (See Appendix B).

## Business Separation Guideline

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<sup>2</sup> Includes any provisions that can be allocated to this particular Business Segment. Provisions refer to any standard provisions that are generally included in the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the Electric Power Industry Participant is a member. As defined in SFAS 1, Presentation of Financial Statements, a provision is a liability of uncertain timing or amount such as provision for warranties.

## Business Separation Guideline

**Generation, Electric Power Industry Participant \_\_\_\_\_**  
**Cash Flow Statement for the year ended \_\_\_\_\_**

Account code or reference	Description	Generation Million Pesos
	<b>Cash Flows from Operating Activities</b>	
	Net income before tax and extraordinary items	
	Adjustments for depreciation – Historic cost	
	Adjustments for depreciation – Appraisal increment	
	Adjustments for foreign exchange loss / (gain)	
	Investment loss (income)	
	Interest expense (income)	
	<u>Operating income before working capital charges</u>	
	Decrease / (increase) in trade and other receivables	
	Decrease / (increase) in inventories	
	Increase / (decrease) in trade payables	
	<u>Cash generated from operations</u>	
	Interest paid	
	Income taxes paid	
	<u>Cash flow before extraordinary items</u>	
	Extraordinary gain / (loss)	
	<u>Net cash from (used in) operating activities</u>	
	<b>Cash Flows from Investing Activities</b>	
	Acquisition of subsidiary	
	Purchase of plant and equipment (analyzed as appropriate)	
	Purchase of land and buildings	
	Interest received	
	Dividends received	
	Purchase of Other Investment Activities	
	Sale of Other Investment Activities	
	<u>Net cash used in (from) investment activities</u>	
	<b>Cash Flows from Financing Activities</b>	
	Proceeds from issuance of stock	
	Proceeds from Long Term Debt (analyzed as appropriate)	
	Payment of financial lease liabilities	
	Dividends paid	
	<u>Net cash used in (from) financing activities</u>	
	<b>Net Change in Cash Equivalents</b>	
	Cash and Cash Equivalents at Beginning of Year	
	Cash and Cash Equivalents at End of Year	

## Business Separation Guideline

**Generation, Electric Power Industry Participant \_\_\_\_\_**  
**Revenue Schedule for the year ended \_\_\_\_\_**

Account code or reference	Description	Generation Million Pesos
	<b>Direct revenue</b>	
	Revenue from the sale of electricity and ancillary services	
	Revenue from the sale of assets	
	Other revenue (analyzed as appropriate)	
	<b>Total direct revenue</b>	
	<b>Indirectly attributable revenue</b>	
	Revenue from the sale of electricity and ancillary services	
	Revenue from the sale of assets	
	Other revenue (analyzed as appropriate)	
	<b>Total indirectly attributable revenue</b>	
	<b>Unattributable revenue allocated</b>	
	Revenue from the sale of electricity and ancillary services	
	Revenue from the sale of assets	
	Other revenue (analyzed as appropriate)	
	<b>Total unattributable revenue</b>	
	<b>Total revenue</b>	

Note: In addition to the above it is mandatory to produce for each revenue item that has been allocated to the Business Segment a supporting work paper that includes:

- (a) the amounts that have been indirectly attributed to the Business Segment
- (b) the amounts that have been allocated to the Business Segment
- (c) a description of the allocation basis
- (d) the numeric quantity of each allocation factor

## Business Separation Guideline

**Generation, Electric Power Industry Participant \_\_\_\_\_**  
**Cost Schedule for the year ended \_\_\_\_\_**

Account code or reference	Description	Generation Million Pesos
	<b>Direct costs</b>	
	Maintenance	
	Operating expenses	
	Depreciation – Historic cost	
	Depreciation – Appraisal increment	
	Other costs (analyzed as appropriate)	
	<b>Total direct costs</b>	
	<b>Indirectly attributable costs</b>	
	Maintenance	
	Operating expenses (analyzed as appropriate)	
	Depreciation – Historic cost	
	Depreciation – Appraisal increment	
	<b>Total indirectly attributable costs</b>	
	<b>Unattributable costs allocated</b>	
	Maintenance	
	Operating expenses (analyzed as appropriate)	
	Depreciation – Historic cost	
	Depreciation – Appraisal increment	
	<b>Total unattributable costs allocated</b>	
	<b>Total operating costs</b>	
	Direct extraordinary items	
	Indirectly attributable extraordinary items	
	Unattributable extraordinary items allocated	
	<b>Total Extraordinary Items</b>	

Note: In addition to the above it is mandatory to produce for each cost item that has been attributed or allocated to the Business Segment a supporting work paper that includes:

- (a) the amounts that have been indirectly attributed to the Business Segment
- (b) the amounts that have been allocated to the Business Segment
- (c) a description of the allocation basis
- (d) the numeric quantity of each allocation factor

## Business Separation Guideline

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Generation, Electric Power Industry Participant \_\_\_\_\_  
Inter-segmental Transactions Note for the year ended \_\_\_\_\_

**(a) Inter-segmental Revenues recorded in the Statement of Income**

Reference	Description	Business Segment & Account debited	Business Segment & Account credited	Amount debited [Mil. Pesos]	Amount credited [Mil. Pesos]

**(b) Inter-segmental Costs recorded in the Statement of Income**

Reference	Description	Business Segment & Account debited	Business Segment & Account credited	Amount debited [Mil. Pesos]	Amount credited [Mil. Pesos]

**Business Separation Guideline**

**APPENDIX D – ACCOUNTING SEPARATION REPORTING FORMATS (TRANSMISSION BUSINESS SEGMENTS)**

Transmission, Electric Power Industry Participant \_\_\_\_\_  
 Statement of Income for the year ended \_\_\_\_\_

Account code or reference	Description	Transmission Services Million Pesos	Transmission Connection Services Million Pesos	Market Operations Million Pesos	System Operations Million Pesos	Related Businesses Million Pesos
	Revenue from regulated services (analyzed as appropriate)					
	Revenue from non-regulated services					
	Revenue from the sale of assets					
	Other revenue (analyzed as appropriate)					
	<b>Total Revenue</b>					
	Maintenance					
	Operating expenses (analyzed as appropriate)					
	Depreciation – Historic cost					
	Depreciation – Appraisal increment					
	<b>Total operating costs</b>					
	<b>Profit before interest and tax</b>					
	Interest					
	<b>Profit before tax and extraordinary items</b>					
	Tax					
	Extraordinary Revenue Items <sup>1</sup>					
	Extraordinary Expense Items <sup>1</sup>					
	<b>Profit after interest, tax and extraordinary items</b>					

<sup>1</sup> Includes all segment revenues and expenses which would otherwise be excluded under paragraph 16 of SFAS31 / IAS 14.

## Business Separation Guideline

**Transmission, Electric Power Industry Participant \_\_\_\_\_**  
**Statement of Assets and Liabilities as at \_\_\_\_\_**

Account code or reference	Description	Transmission Services Million Pesos	Transmission Connection Services Million Pesos	Market Operations Million Pesos	System Operations Million Pesos	Related Businesses Million Pesos
	<b>NON-CURRENT ASSETS</b>					
	Utility plant and equipment – Historic cost					
	Utility plant and equipment – Accumulated Historic depreciation					
	Utility plant and equipment – Appraisal increment					
	Utility plant and equipment – Accumulated Appraisal depreciation					
	Buildings and improvements – Historic cost					
	Buildings and improvements – Accumulated Historic depreciation					
	Buildings and improvements – Appraisal increment					
	Buildings and improvements – Accumulated Appraisal depreciation					
	Information technology– Historic cost					
	Information technology– Accumulated Historic depreciation					
	Motor vehicles– Historic cost					
	Motor vehicles– Accumulated Historic depreciation					
	Investments and advances					
	Land and development					
	Other non-current – Net of accumulated depreciation					
	<b>Total non-current assets</b>					
	<b>CURRENT ASSETS</b>					
	Cash and cash equivalents					
	Receivables					
	Investments					
	Prepayments					
	Materials and supplies					
	Other current assets					
	<b>Total Current Assets</b>					
	<b>TOTAL ASSETS</b>					
	<b>NON-CURRENT LIABILITIES<sup>1</sup></b>					
	Provisions <sup>2</sup>					
	Loans					
	<b>Total non-current liabilities</b>					
	<b>CURRENT LIABILITIES</b>					
	Trade payables and accrued expenses					
	Loans					
	Provisions					
	<b>Total current liabilities</b>					
	<b>TOTAL LIABILITIES</b>					
	<b>NET ASSETS/ (LIABILITIES)</b>					

## Business Separation Guideline

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<sup>1</sup> Long term borrowings and any tax liabilities and standard provisions generally included in the balance sheet in the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the Electric Power Industry Participant is a member, and that relate to the business as a whole, should be excluded from the statement of assets and liabilities for individual Business Segments because these items relate to the business as a whole and not to the individual Business Segments. Unallocated items such as these should be included in the reconciliation of the total statement of assets and liabilities to those General Purpose Financial Statements (See Appendix B)..

<sup>2</sup> Includes any provisions that can be allocated to this particular Business Segment. Provisions refer to any standard provisions that are generally included in the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the Electric Power Industry Participant is a member. As defined in SFAS 1, Presentation of Financial Statements, a provision is a liability of uncertain timing or amount such as provision for warranties.

## Business Separation Guideline

**Transmission, Electric Power Industry Participant \_\_\_\_\_**  
**Cash Flow Statement for the year ended \_\_\_\_\_**

Account code or reference	Description	Transmission Million Pesos
	<b>Cash Flows from Operating Activities</b>	
	Net income before tax and extraordinary items	
	Adjustments for depreciation – Historic cost	
	Adjustments for depreciation – Appraisal increment	
	Adjustments for foreign exchange loss / (gain)	
	Investment loss (income)	
	Interest expense (income)	
	<u>Operating income before working capital charges</u>	
	Decrease / (increase) in trade and other receivables	
	Decrease / (increase) in inventories	
	Increase / (decrease) in trade payables	
	<u>Cash generated from operations</u>	
	Interest paid	
	Income taxes paid	
	<u>Cash flow before extraordinary items</u>	
	Extraordinary gain / (loss)	
	<u>Net cash from (used in) operating activities</u>	
	<b>Cash Flows from Investing Activities</b>	
	Acquisition of subsidiary	
	Purchase of plant and equipment (analyzed as appropriate)	
	Purchase of land and buildings	
	Interest received	
	Dividends received	
	Purchase of Other Investment Activities	
	Sale of Other Investment Activities	
	<u>Net cash used in (from) investment activities</u>	
	<b>Cash Flows from Financing Activities</b>	
	Proceeds from issuance of stock	
	Proceeds from Long Term Debt (analyzed as appropriate)	
	Payment of financial lease liabilities	
	Dividends paid	
	<u>Net cash used in (from) financing activities</u>	
	<b>Net Change in Cash Equivalents</b>	
	Cash and Cash Equivalents at Beginning of Year	
	Cash and Cash Equivalents at End of Year	

## Business Separation Guideline

**Transmission, Electric Power Industry Participant \_\_\_\_\_**  
**Revenue Schedule for the year ended \_\_\_\_\_**

Account code or reference	Description	Transmission Services Million Pesos	Transmission Connection Services Million Pesos	Market Operations Million Pesos	System Operations Million Pesos	Related Businesses Million Pesos
	<b>Direct revenue</b>					
	Revenue from regulated services (analyzed as appropriate)					
	Revenue from non-regulated services					
	Revenue from the sale of assets					
	Other revenue (analyzed as appropriate)					
	<b>Total direct revenue</b>					
	<b>Indirectly attributable revenue</b>					
	Revenue from the sale of electricity and ancillary services					
	Revenue from the sale of assets					
	Other revenue (analyzed as appropriate)					
	<b>Total indirectly attributable revenue</b>					
	<b>Unattributable revenue allocated</b>					
	Revenue from the sale of electricity and ancillary services					
	Revenue from the sale of assets					
	Other revenue (analyzed as appropriate)					
	<b>Total unattributable revenue allocated</b>					
	<b>Total revenue</b>					

Note: In addition to the above it is mandatory to produce for each revenue item that has been allocated to the Business Segment a supporting work paper that includes:

- (a) the amounts that have been indirectly attributed to the Business Segment
- (b) the amounts that have been allocated to the Business Segment
- (c) a description of the allocation basis
- (d) the numeric quantity of each allocation factor

## Business Separation Guideline

**Transmission, Electric Power Industry Participant** \_\_\_\_\_  
**Cost Schedule for the year ended** \_\_\_\_\_

Account code or reference	Description	Transmission Services Million Pesos	Transmission Connection Services Million Pesos	Market Operations Million Pesos	System Operations Million Pesos	Related Businesses Million Pesos
	<b>Direct costs</b>					
	Maintenance					
	Operating expenses					
	GMC operating costs					
	Depreciation					
	Other costs (analyzed as appropriate)					
	<b>Total direct costs</b>					
	<b>Indirectly attributable costs</b>					
	Maintenance					
	Operating expenses (analyzed as appropriate)					
	GMC operating costs					
	Depreciation					
	<b>Total indirectly attributable costs</b>					
	<b>Unattributable costs allocated</b>					
	Maintenance					
	Operating expenses (analyzed as appropriate)					
	GMC operating costs					
	Depreciation					
	<b>Total unattributable costs allocated</b>					
	<b>Total operating costs</b>					
	Direct extraordinary items					
	Indirectly attributable extraordinary items					
	Unattributable extraordinary items allocated					
	<b>Total Extraordinary Items</b>					

Note: In addition to the above it is mandatory to produce for each cost item that has been allocated to the Business Segment a supporting work paper that includes:

- (a) the amounts that have been indirectly attributed to the Business Segment
- (b) the amounts that have been allocated to the Business Segment
- (c) a description of the allocation basis
- (d) the numeric quantity of each allocation factor

## Business Separation Guideline

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Transmission, Electric Power Industry Participant \_\_\_\_\_  
Inter-segmental Transactions Note for the year ended \_\_\_\_\_

**(a) Inter-segmental Revenues recorded in the Statement of Income**

Reference	Description	Business Segment & Account debited	Business Segment & Account credited	Amount debited [Mil. Pesos]	Amount credited [Mil. Pesos]

**(b) Inter-segmental Costs recorded in the Statement of Income**

Reference	Description	Business Segment & Account debited	Business Segment & Account credited	Amount debited [Mil. Pesos]	Amount credited [Mil. Pesos]

**Business Separation Guideline**

**APPENDIX E – ACCOUNTING SEPARATION REPORTING FORMATS (DISTRIBUTION BUSINESS SEGMENTS)**

**Distribution, Electric Power Industry Participant \_\_\_\_\_**  
**Statement of Income for the year ended \_\_\_\_\_**

Account code or reference	Description	Distribution Services Million Pesos	Distribution Connection Services Million Pesos	Metering Services Million Pesos	Regulated Customer Services Million Pesos	Non-regulated Retail Services Million Pesos	Related Businesses Million Pesos
	Revenue from regulated services (analyzed as appropriate)						
	Revenue from non-regulated services						
	Revenue from the sale of assets						
	Other revenue (analyzed as appropriate)						
	<b>Total Revenue</b>						
	Maintenance						
	Electricity charges (paid to Generators)						
	Transmission grid charges						
	WESM fees						
	Operating expenses (analyzed as appropriate)						
	Depreciation – Historic cost						
	Depreciation – Appraisal increment						
	<b>Total operating costs</b>						
	<b>Profit before interest and tax</b>						
	Interest						
	<b>Profit before tax and extraordinary items</b>						
	Tax						
	Extraordinary Revenue Items <sup>1</sup>						
	Extraordinary Expense Items <sup>1</sup>						
	<b>Profit after interest, tax and extraordinary items</b>						

<sup>1</sup> Includes all segment revenues and expenses which would otherwise be excluded under paragraph 16 of SFAS31 / IAS 14.

## Business Separation Guideline

**Distribution, Electric Power Industry Participant \_\_\_\_\_**  
**Statement of Assets and Liabilities as at \_\_\_\_\_**

Account code or reference	Description	Distribution Services Million Pesos	Distribution Connection Services Million Pesos	Metering Services Million Pesos	Regulated Customer Services Million Pesos	Non-regulated Retail Services Million Pesos	Related Businesses Million Pesos
	<b>NON-CURRENT ASSETS</b>						
	Utility plant and equipment – Historic cost						
	Utility plant and equipment – Accumulated Historic depreciation						
	Utility plant and equipment – Appraisal increment						
	Utility plant and equipment – Accumulated Appraisal depreciation						
	Buildings and improvements – Historic cost						
	Buildings and improvements – Accumulated Historic depreciation						
	Buildings and improvements – Appraisal increment						
	Buildings and improvements – Accumulated Appraisal depreciation						
	Information technology– Historic cost						
	Information technology– Accumulated Historic depreciation						
	Motor vehicles– Historic cost						
	Motor vehicles– Accumulated Historic depreciation						
	Investments and advances						
	Land and development						
	Other non-current – Net of accumulated depreciation						
	<b>Total non-current assets</b>						
	<b>CURRENT ASSETS</b>						
	Cash and cash equivalents						
	Receivables						
	Investments						
	Prepayments						
	Materials and supplies						
	Other current assets						
	<b>Total Current Assets</b>						
	<b>TOTAL ASSETS</b>						
	<b>NON-CURRENT LIABILITIES<sup>1</sup></b>						
	Provisions <sup>2</sup>						
	Loans						
	<b>Total non-current liabilities</b>						
	<b>CURRENT LIABILITIES</b>						
	Trade payables and accrued expenses						
	Loans						
	Provisions						
	<b>Total current liabilities</b>						
	<b>TOTAL LIABILITIES</b>						
	<b>NET ASSETS/ (LIABILITIES)</b>						

## Business Separation Guideline

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<sup>1</sup> Long term borrowings and any tax liabilities and standard provisions generally included in the balance sheet in the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the Electric Power Industry Participant is a member, and that relate to the business as a whole, should be excluded from the statement of assets and liabilities for individual Business Segments because these items relate to the business as a whole and not to the individual Business Segments. Unallocated items such as these should be included in the reconciliation of the total statement of assets and liabilities to those General Purpose Financial Statements (see Appendix B).

<sup>2</sup> Includes any provisions that can be allocated to this particular Business Segment. Provisions refer to any standard provisions that are generally included in the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the Electric Power Industry Participant is a member. As defined in SFAS 1, Presentation of Financial Statements, a provision is a liability of uncertain timing or amount such as provision for warranties.

## Business Separation Guideline

**Distribution, Electric Power Industry Participant \_\_\_\_\_**  
**Cash Flow Statement for the year ended \_\_\_\_\_**

Account code or reference	Description	Distribution Million Pesos
	<b>Cash Flows from Operating Activities</b>	
	Net income before tax and extraordinary items	
	Adjustments for depreciation – Historic cost	
	Adjustments for depreciation – Appraisal increment	
	Adjustments for foreign exchange loss / (gain)	
	Investment loss (income)	
	Interest expense (income)	
	<hr/>	<hr/>
	Operating income before working capital charges	
	Decrease / (increase) in trade and other receivables	
	Decrease / (increase) in inventories	
	Increase / (decrease) in trade payables	
	<hr/>	<hr/>
	Cash generated from operations	
	Interest paid	
	Income taxes paid	
	<hr/>	<hr/>
	Cash flow before extraordinary items	
	Extraordinary gain / (loss)	
	<hr/>	<hr/>
	Net cash from (used in) operating activities	
	<b>Cash Flows from Investing Activities</b>	
	Acquisition of subsidiary	
	Purchase of plant and equipment (analyzed as appropriate)	
	Purchase of land and buildings	
	Interest received	
	Dividends received	
	Purchase of Other Investment Activities	
	Sale of Other Investment Activities	
	<hr/>	<hr/>
	Net cash used in (from) investment activities	
	<b>Cash Flows from Financing Activities</b>	
	Proceeds from issuance of stock	
	Proceeds from Long Term Debt (analyzed as appropriate)	
	Payment of financial lease liabilities	
	Dividends paid	
	<hr/>	<hr/>
	Net cash used in (from) financing activities	
	<b>Net Change in Cash Equivalents</b>	
	Cash and Cash Equivalents at Beginning of Year	
	Cash and Cash Equivalents at End of Year	

## Business Separation Guideline

**Distribution, Electric Power Industry Participant \_\_\_\_\_**  
**Revenue Schedule for the year ended \_\_\_\_\_**

Account code or reference	Distribution Services Million Pesos	Distribution Connection Services Million Pesos	Metering Services Million Pesos	Regulated Customer Services Million Pesos	Non-regulated Retail Services Million Pesos	Related Businesses Million Pesos
<b>Direct revenue</b>						
Revenue from regulated services (analyzed as appropriate)						
Revenue from non-regulated services						
Revenue from the sale of assets						
Other revenue (analyzed as appropriate)						
<b>Total direct revenue</b>						
<b>Indirectly attributable revenue</b>						
Revenue from the sale of electricity and ancillary services						
Revenue from the sale of assets						
Other revenue (analyzed as appropriate)						
<b>Total indirectly attributable revenue</b>						
<b>Unattributable revenue allocated</b>						
Revenue from the sale of electricity and ancillary services						
Revenue from the sale of assets						
Other revenue (analyzed as appropriate)						
<b>Total unattributable revenue allocated</b>						
<b>Total revenue</b>						

Note: In addition to the above it is mandatory to produce for each revenue item that has been allocated to the Business Segment a supporting work paper that includes:

- (a) the amounts that have been indirectly attributed to the Business Segment
- (b) the amounts that have been allocated to the Business Segment
- (c) a description of the allocation basis
- (d) the numeric quantity of each allocation factor

## Business Separation Guideline

**Distribution, Electric Power Industry Participant \_\_\_\_\_**  
**Cost Schedule for the year ended \_\_\_\_\_**

Account code or reference	Description	Distribution Services Million Pesos	Distribution Connection Services Million Pesos	Metering Services Million Pesos	Regulated Customer Services Million Pesos	Non-regulated Retail Services Million Pesos	Related Businesses Million Pesos
	<b>Direct costs</b>						
	Maintenance						
	Electricity charges (paid to Generators)						
	Transmission grid charges						
	WESM fees						
	Operating expenses						
	Depreciation						
	Other costs (analyzed as appropriate)						
	<b>Total direct costs</b>						
	<b>Indirectly attributable costs</b>						
	Maintenance						
	Electricity charges (paid to Generators)						
	Transmission grid charges						
	WESM fees						
	Operating expenses (analyzed as appropriate)						
	Depreciation						
	<b>Total indirectly attributable costs</b>						
	<b>Unattributable costs allocated</b>						
	Maintenance						
	Electricity charges (paid to Generators)						
	Transmission grid charges						
	WESM fees						
	Operating expenses (analyzed as appropriate)						
	Depreciation						
	Total unattributable costs allocated						
	<b>Total operating costs</b>						
	Direct extraordinary items						
	Indirectly attributable extraordinary items						
	Unattributable extraordinary items allocated						
	<b>Total Extraordinary Items</b>						

## Business Separation Guideline

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Note: In addition to the above it is mandatory to produce for each cost item that has been allocated to the Business Segment a supporting work paper that includes:

- (a) the amounts that have been indirectly attributed to the Business Segment
- (b) the amounts that have been allocated to the Business Segment
- (c) a description of the allocation basis
- (d) the numeric quantity of each allocation factor

## Business Separation Guideline

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**Distribution, Electric Power Industry Participant \_\_\_\_\_**  
**Inter-segmental Transactions Note for the year ended \_\_\_\_\_**

**(a) Inter-segmental Revenues recorded in the Statement of Income**

Reference	Description	Business Segment & Account debited	Business Segment & Account credited	Amount debited [Mil. Pesos]	Amount credited [Mil. Pesos]

**(b) Inter-segmental Costs recorded in the Statement of Income**

Reference	Description	Business Segment & Account debited	Business Segment & Account credited	Amount debited [Mil. Pesos]	Amount credited [Mil. Pesos]

**APPENDIX F – ACCOUNTING SEPARATION REPORTING FORMATS (SUPPLY BUSINESS SEGMENTS)**

Supply, Electric Power Industry Participant \_\_\_\_\_  
 Statement of Income for the year ended \_\_\_\_\_

Account code or reference	Description	Supply Services Million Pesos
	Revenue from the supply of electricity	
	Revenue from the sale of assets	
	Other revenue (analyzed as appropriate)	
	<b>Total Revenue</b>	
	Maintenance	
	Operating expenses (analyzed as appropriate)	
	Depreciation – Historic cost	
	Depreciation – Appraisal increment	
	<b>Total operating costs</b>	
	<b>Profit before interest and tax</b>	
	Interest	
	<b>Profit before tax and extraordinary items</b>	
	Tax	
	Extraordinary Revenue Items <sup>1</sup>	
	Extraordinary Expense Items <sup>1</sup>	
	<b>Profit after interest, tax and extraordinary items</b>	

## Business Separation Guideline

**Supply, Electric Power Industry Participant \_\_\_\_\_**  
**Statement of Assets and Liabilities as at \_\_\_\_\_**

Account code or reference	Description	Supply Services Million Pesos
	<b>NON-CURRENT ASSETS</b>	
	Utility plant and equipment – Historic cost	
	Utility plant and equipment – Accumulated Historic depreciation	
	Utility plant and equipment – Appraisal increment	
	Utility plant and equipment – Accumulated Appraisal depreciation	
	Buildings and improvements – Historic cost	
	Buildings and improvements – Accumulated Historic depreciation	
	Buildings and improvements – Appraisal increment	
	Buildings and improvements – Accumulated Appraisal depreciation	
	Information technology– Historic cost	
	Information technology– Accumulated Historic depreciation	
	Motor vehicles– Historic cost	
	Motor vehicles– Accumulated Historic depreciation	
	Investments and advances	
	Land and development	
	Other non-current – Net of accumulated depreciation	
	<b>Total non-current assets</b>	
	<b>CURRENT ASSETS</b>	
	Cash and cash equivalents	
	Receivables	
	Investments	
	Prepayments	
	Materials and supplies	
	Other current assets	
	<b>Total Current Assets</b>	
	<b>TOTAL ASSETS</b>	
	<b>NON-CURRENT LIABILITIES<sup>1</sup></b>	
	Provisions <sup>2</sup>	
	Loans	
	<b>Total non-current liabilities</b>	
	<b>CURRENT LIABILITIES</b>	
	Trade payables and accrued expenses	
	Loans	
	Provisions	
	<b>Total current liabilities</b>	
	<b>TOTAL LIABILITIES</b>	
	<b>NET ASSETS/ (LIABILITIES)</b>	

Long term borrowings and any tax liabilities and standard provisions generally included in the balance sheet in the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the Electric Power Industry Participant is a member, and that relate to the business as a whole, should be excluded from the statement of assets and liabilities for individual

## Business Separation Guideline

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Business Segments because these items relate to the business as a whole and not to the individual Business Segments. Unallocated items such as these should be included in the reconciliation of the total statement of assets and liabilities to those General Purpose Financial Statements (see Appendix B).

<sup>2</sup> Includes any provisions that can be allocated to this particular Business Segment. Provisions refer to any standard provisions that are generally included in the General Purpose Financial Statements that pertain to the Electric Power Industry Group of which the Electric Power Industry Participant is a member. As defined in SFAS 1, Presentation of Financial Statements, a provision is a liability of uncertain timing or amount such as provision for warranties.

## Business Separation Guideline

**Supply, Electric Power Industry Participant \_\_\_\_\_**  
**Cash Flow Statement for the year ended \_\_\_\_\_**

Account code or reference	Description	Supply Services Million Pesos
	<b>Cash Flows from Operating Activities</b>	
	Net income before tax and extraordinary items	
	Adjustments for depreciation – Historic cost	
	Adjustments for depreciation – Appraisal increment	
	Adjustments for foreign exchange loss / (gain)	
	Investment loss (income)	
	Interest expense (income)	
	<u>Operating income before working capital charges</u>	
	Decrease / (increase) in trade and other receivables	
	Decrease / (increase) in inventories	
	Increase / (decrease) in trade payables	
	<u>Cash generated from operations</u>	
	Interest paid	
	Income taxes paid	
	<u>Cash flow before extraordinary items</u>	
	Extraordinary gain / (loss)	
	<u>Net cash from (used in) operating activities</u>	
	<b>Cash Flows from Investing Activities</b>	
	Acquisition of subsidiary	
	Purchase of plant and equipment (analyzed as appropriate)	
	Purchase of land and buildings	
	Interest received	
	Dividends received	
	Purchase of Other Investment Activities	
	Sale of Other Investment Activities	
	<u>Net cash used in (from) investment activities</u>	
	<b>Cash Flows from Financing Activities</b>	
	Proceeds from issuance of stock	
	Proceeds from Long Term Debt (analyzed as appropriate)	
	Payment of financial lease liabilities	
	Dividends paid	
	<u>Net cash used in (from) financing activities</u>	
	<b>Net Change in Cash Equivalents</b>	
	Cash and Cash Equivalents at Beginning of Year	
	Cash and Cash Equivalents at End of Year	

## Business Separation Guideline

**Supply, Electric Power Industry Participant \_\_\_\_\_**  
**Revenue Schedule for the year ended \_\_\_\_\_**

Account code or reference	Description	Supply Services Million Pesos
	<b>Direct revenue</b>	
	Revenue from the supply of electricity	
	Revenue from the sale of assets	
	Other revenue (analyzed as appropriate)	
	<b>Total direct revenue</b>	
	<b>Indirectly attributable revenue</b>	
	Revenue from the sale of electricity and ancillary services	
	Revenue from the sale of assets	
	Other revenue (analyzed as appropriate)	
	<b>Total indirectly attributable revenue</b>	
	<b>Unattributable revenue allocated</b>	
	Revenue from the sale of electricity and ancillary services	
	Revenue from the sale of assets	
	Other revenue (analyzed as appropriate)	
	<b>Total unattributable revenue</b>	
	<b>Total revenue</b>	

Note: In addition to the above it is mandatory to produce for each revenue item that has been allocated to the Business Segment a supporting work paper that includes:

- (a) the amounts that have been indirectly attributed to the Business Segment
- (b) the amounts that have been allocated to the Business Segment
- (c) a description of the allocation basis
- (d) the numeric quantity of each allocation factor

## Business Separation Guideline

Supply, Electric Power Industry Participant \_\_\_\_\_  
 Cost Schedule for the year ended \_\_\_\_\_

Account code or reference	Description	Supply Services Million Pesos
	<b>Direct costs</b>	
	Maintenance	
	Operating expenses	
	Depreciation	
	Other costs (analyzed as appropriate)	
	<b>Total direct costs</b>	
	<b>Indirectly attributable costs</b>	
	Maintenance	
	Operating expenses (analyzed as appropriate)	
	Depreciation	
	<b>Total indirectly attributable costs</b>	
	<b>Unattributable costs allocated</b>	
	Maintenance	
	Operating expenses (analyzed as appropriate)	
	Depreciation	
	<b>Total unattributable costs allocated</b>	
	<b>Total operating costs</b>	
	Direct extraordinary items	
	Indirectly attributable extraordinary items	
	Unattributable extraordinary items allocated	
	<b>Total Extraordinary Items</b>	

Note: In addition to the above it is mandatory to produce for each cost item that has been allocated to the Business Segment a supporting work paper that includes:

- (a) the amounts that have been indirectly attributed to the Business Segment
- (b) the amounts that have been allocated to the Business Segment
- (c) a description of the allocation basis
- (d) the numeric quantity of each allocation factor

## Business Separation Guideline

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Supply, Electric Power Industry Participant \_\_\_\_\_  
Inter-segmental Transactions Note for the year ended \_\_\_\_\_

**(a) Inter-segmental Revenues recorded in the Statement of Income**

Reference	Description	Business Segment & Account debited	Business Segment & Account credited	Amount debited [Mil. Pesos]	Amount credited [Mil. Pesos]

**(b) Inter-segmental Costs recorded in the Statement of Income**

Reference	Description	Business Segment & Account debited	Business Segment & Account credited	Amount debited [Mil. Pesos]	Amount credited [Mil. Pesos]

## APPENDIX G – TRANSFER PRICING METHODS

Methodologies for calculation of transfer prices for the purposes of the Accounting Separation Statements that the ERC considers are acceptable are described below.

### 1. Transfer prices for services and products

The pricing of services or products between related entities/business segments should be consistent with one of the following methods:

#### *Prevailing Market Price*

Prevailing market prices are generally accepted market values that can be substantiated by clearly comparable transactions, auction prices or appraisal values. These prices are those that would be set for a non-related transaction. If a prevailing market price is available, it should be the preferred transfer price, as it reflects the price of the product based on prevailing market conditions and thus reflects the price of an arms length transaction.

#### *Tariff Based Price*

Tariff-based pricing uses prices that are approved by the ERC.

#### *Fully Allocated Costs*

Fully allocated costs are the sum of direct plus an appropriate share of indirectly attributable costs and unattributable (common) costs. The fully allocated cost method of transfer pricing requires that revenues collected from the sale of products or services or the transfer of capital assets to internal business segments or related entities equals the sum of direct costs plus an appropriate share of indirectly attributable costs and common costs.

#### *Incremental Cost*

Incremental cost based pricing refers to the pricing of services or products based on only the additional costs added by the operation in question, while fixed, shared and common costs are supported by pre-existing services. However, any incremental capital costs are included.

#### *Cost Plus*

The cost plus method of transfer pricing refers to the pricing of services or products 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 or service.

***Comparable Transaction Price***

The comparable transaction approach compares the price for a service transferred between related parties to the price charged for a comparable service transferred between independent entities in comparable circumstances. A transaction is considered comparable if either:

- none of the difference between the transaction being compared or the enterprises undertaking the transactions could materially affect the price in the open market; or
- reasonably accurate adjustments can be made to take account of any material differences.

**2. Transfer prices for capital assets transferred**

The transfer of capital assets to an ***unregulated*** related entity or internal business segment should be at the greater of prevailing market price or net book value. The transfer of capital assets to a ***regulated*** related entity or internal business (i.e. whose prices are subject to regulation by the ERC) should be at the lower of prevailing market price or net book value.

**APPENDIX H – MANAGEMENT RESPONSIBILITY STATEMENT**

The management of [ELECTRIC POWER INDUSTRY PARTICIPANT] is responsible for all information and representations contained in the Accounting Separation Statements for the year ended [DATE]. The Accounting Separation Statements have been prepared in conformity with the Business Separation Guideline promulgated by the Energy Regulatory Commission and are appropriate to meet the requirements of the Commission.

In this regard,

- (a) the management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that assets, liabilities and transactions are properly recorded and recognised and that revenues and costs are properly allocated; and
- (b) the accounting policies used are consistent with the requirements of the Business Separation Guideline.

This statement has been approved by a board resolution dated [ ], a certified copy of which is attached to this Statement.

Signature \_\_\_\_\_

Name \_\_\_\_\_

Date \_\_\_\_\_

## **APPENDIX I – AUDITOR’S REPORT**

### **To the Energy Regulatory Commission**

#### **Scope**

We have audited the attached special purpose financial report comprising the Accounting Separation Statements prepared by [ELECTRIC POWER INDUSTRY PARTICIPANT] for the year ended [DATE].

The Directors of [ELECTRIC POWER INDUSTRY PARTICIPANT] are responsible for the Accounting Separation Statements and have determined that the Accounting Separation Statements are appropriate to meet the requirements of the Energy Regulatory Commission, including that:

- the management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that assets, liabilities and transactions are properly recorded and recognised and that revenues and costs are properly allocated; and
- the accounting policies used are consistent with the requirements of the Business Separation Guideline.

We have conducted an independent audit of the Accounting Separation Statements in order to express an opinion on them to the Energy Regulatory Commission. No opinion is expressed as to whether the accounting policies used are appropriate to the needs of the Energy Regulatory Commission.

The Accounting Separation Statements have been prepared for the purpose of fulfilling [ELECTRIC POWER INDUSTRY PARTICIPANT’S] reporting requirements under the Business Separation Guideline. We disclaim any assumption of responsibility for any reliance on this report, or on the Accounting Separation Statements to which it relates, to any person other than the Energy Regulatory Commission, or for any purpose other than that for which it was prepared.

Our audit has been conducted in accordance with generally accepted auditing standards in the Philippines. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the Accounting Separation Statements and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the Accounting Separation Statements are presented fairly in accordance with the requirements of the Business Separation Guideline.

**Audit Opinion**

In our opinion, the Accounting Separation Statements have been properly drawn up in accordance with the Business Separation Guideline and the Accounting and Cost Allocation Manual (ACAM) that has been prepared by [ELECTRIC POWER INDUSTRY PARTICIPANT] and provided to the Energy Regulatory Commission and, in all material respects, present fairly:

- (i) the Statements of Income for each Business Segment;
- (ii) the Total Statement of Income (including its reconciliation to the General Purpose Financial Statements of the Electric Power Industry Group of which [ELECTRIC POWER INDUSTRY PARTICIPANT] is a member);
- (iii) the Statement of Assets and Liabilities for each Business Segment;
- (iv) the Total Statement of Assets and Liabilities (including its reconciliation to the General Purpose Financial Statements of the Electric Power Industry Group of which [ELECTRIC POWER INDUSTRY PARTICIPANT] is a member); and
- (v) the Cash Flow Statement for each Business Segment.

Material exceptions and their respective effects on the Accounting Separation Statements are as follows:

[Describe any material exceptions]

Date: \_\_\_\_\_  
Firm: \_\_\_\_\_  
Partner: \_\_\_\_\_  
Address: \_\_\_\_\_