

**BUSINESS SEPARATION GUIDELINES**

Consolidation of Comments

as of March 4, 2003

#	Section No. / Topic	Topic	Guideline Provision	Company	Comments / Recommendations	ERC Staff Remarks
1	Filing Package 1.3 Request for Technical Assistance	General: Request for Technical Assistance	Such unbundling does not necessarily require that these business activities (or their component business segments) be conducted by different juridical entities, although this is an option available to electric power industry participants.	CELCOR	Frankly, the smaller utilities like us (who cannot afford to hire the services of consultants), will find it truly hard to comply with all of these technical filing requirements. We fervently suggest that the Commission takes the necessary steps to assist these utilities in the form of technical assistance, if so by requested by these utilities.	Noted.
2	Filing Package 2.2 General Instructions: Sections of the BSUP	General Instructions: Sections of the BSUP	"For each of the relevant business segments identified in the Attachment: (a) the number of individuals (whether employees or persons whose services are provided under a contract for service) who are engaged in the activities of the business segment, identifying in each case: (i) the number of such individuals who are engaged in the activities of other business segments or other business activities of the Corporate Group; and (ii) the other business segments or business activities in which such individuals are engaged; and .....	MERALCO	In line with the requirement that an EPIP submit the "number of individuals (whether employees or persons whose services are provided under a contract for service)", we would like to request for clarification concerning outsourced activities. This is because the Outsourcing contracts between the EPIPs and the contractual service providers typically do not stipulate the number of employees that will be provided by the service provider but the specific output required by the EPIP.	Intention was to capture the number of employees in a company or its affiliates, not from non-affiliated companies which provide outsourcing services. Thus true non-affiliated outsourcing would not add to the count of individuals. Drafting will be reviewed.
3	Filing Package 4.1 Description of Separation	Description of Separation	The manner in which the electric power industry participant intends to effect the separation of the business segments identified in the Attachment and a description of the assets, facilities and employees to be utilized in, or engaged in the activities of, those business segments. This may be achieved in one or more of the following ways (or any combination thereof): (a) the creation of separate divisions or departments, within the same juridical entity, that undertake the activities the subject of each such business segment; or (b) the creation of separate juridical entities which undertake each such activity	MERALCO	For clarity, we are recommending that the BSUP filing package and guidelines stipulate tests or conditions to determine the minimum degree of separation and unbundling required of each EPIP.	BSUP filing package is intended to help EPIPs to meet their obligations through accounting separation, but not to stipulate structural separation (except in one instance see Section 5.4.1). Otherwise the entity can decide whether or not it wishes to structurally separate. Considerable guidance is provided in the BSUP on financial and information separation requirements. MERALCO to elaborate on what else it suggests is required.
4	Filing Package 5 Milestones and Highlights	Milestones and Highlights	The milestones and highlights in the implementation of the separation of the business segments as contemplated by item 1 of section 4 and in the implementation of the measures referred to in item 3 of section 4 (to the extent relevant). [Note that an electric power industry participant who does not implement the requisite separation is not eligible to participate in retail competition and open access.[1] Electric cooperatives must implement the requisite separation no later than 21 June 2006[2]].	MERALCO	The IRR (Rule 12.1) mandates that "Retail Competition and Open Access shall be implemented no later than 3 years from the effectivity of the Act" (06/26/04). Between now and June 2004, EPIPs are left with only a few months to implement a regulator-approved plan and be allowed to participate in retail competition.	Noted, EPIRA does say BSG must be in place by June 26, 2004 under Section 31 of the EPIRA. It also suggests there are a number of pre-conditions which are required before the practical implementation of "retail competition and open access". Two such pre-conditions are privatization of 70% of total NPC generation capacity in Luzon and Visayas, and establishment of the wholesale electricity spot market.
5	Filing Package 6 Code of Conduct	Code of Conduct	An express undertaking by the electric power industry participant that it will develop for approval by the ERC a plan for complying with the code of conduct that is to be promulgated by the ERC to regulate matters relating to end users, such plan to include training and developmental programs for employees to help ensure compliance with that code	MERALCO	With compliance to the Code of Conduct a requirement for EPIP-proposed BSUPs, we recommend that the effectivity of the BSUP Filing Package and Guidelines take into consideration the release date of the Code of Conduct.	BSG is not dependent upon the existence of a Code of Conduct. it does not need to be held up waiting release of a Code of Conduct. The draft Code of Conduct is now with the Commissioners for consideration and following discussions on its form and potentially further edits, it shall be released for public comment (say end March depending on the Commissioner deliberations on detail). The implementation of the draft Code will take into account various preliminary steps which the EPIPs need to take in preparation for it, and the timing of its introduction will reflect this.
6	Guidelines: 1.3 Definitions: Grid	Definitions: Grid	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.	MERALCO	We are recommending that the definition used in the <b>Philippine Grid Code</b> be adopted by the Guidelines: "The high voltage backbone System of interconnected transmission lines, substations, and related facilities for the purpose of conveyance of bulk power. Also known as the Transmission System." (Philippine Grid Code, p.10) This will align the Guidelines with definitions found in RA 9136, and the Philippine Grid and Distribution Codes.	Section 1.3 of the BSG says "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)." Thus the BSG picks up the definition of Grid in the EPIRA except for the following point is the same as that in the Grid Code. The BSG needs to apply to sub-transmission assets operated by Transco and the Grid. This should clarify any uncertainty regarding whether the definition of Grid changes. The intention is not to introduce a new definition.
7	Guidelines: 1.3 Definitions: Significant Inter-segmental Transaction	Definitions: Significant Inter-segmental Transaction	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.	First Gas	The definition may be biased against bigger firms. The test of significance is relative to the size of the firm, and hence should be tied up to the amount of its assets or revenues. We recommend that the definition be changed to "a collective value amounting to 1% of the revenues."	Adjust to being defined as the larger of 3% of revenue excluding Inter-segmental Transactions or Php 10 million then this would assist with firm size issue.
8	Guidelines: 2.2.1 Accounting and Cost Allocation Manual	Accounting and Cost Allocation Manual	.... 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 by the later of 30 June 2004 and the date on which this Guideline applies to that Electric Power Industry Participant.	CELCOR	The Commission should provide a <u>general sample</u> or <u>model</u> of the ACAM that it considers appropriate to support the Accounting Separation Statements to ensure uniformity of the underlying principles behind the most basic statements. This will also help the Commission in making realistic comparisons amongst various EPIPs.	Noted. Article III of BSG provides the principles which must be included in the ACAM.

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9	Guidelines: 2.2.1 Accounting and Cost Allocation Manual	Accounting and Cost Allocation Manual	.... 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 by the later of 30 June 2004 and the date on which this Guideline applies to that Electric Power Industry Participant.	CEPALCO	Each industry participant is required to submit to ERC an ACAM. We suggest that the ERC provide guidelines for the preparation of the ACAM by the distribution utilities in order that there can be substantial uniformity in the Manuals of the different utilities. Uniformity of the ACAM would make possible benchmarking of the performance of the utilities.	Noted, ERC would like to move towards a uniform approach. Section 3.4 provides the overall guidance on the principles for revenue and cost allocation, depreciation and other issues. This guidance should lead to primary uniformity. CEPALCO to elaborate on what level of further uniformity it is proposing.
10	Guidelines: 2.2.1 Deadline for Accounting and Cost Allocation Manual	Deadline for Accounting and Cost Allocation Manual	.... 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 by the later of 30 June 2004 and the date on which this Guideline applies to that Electric Power Industry Participant.	ILPI	The ERC has set the submission of the BSUP within six (6) months from the effectivity of the Business Separation Guideline. Since said effectivity has not been fixed, due date for the submission of the ACAM should be set at "within X number of months from submission of the Business Separation Guideline."	Noted. BSG likely to be promulgated prior to June 2003. There is then one year to put an ACAM in place, and reporting under these arrangements is required to be available in first quarter of 2005. There seems to be ample time achieve these time frames. ILPI to elaborate on what period it is suggesting.
11	Guidelines: 2.2.3 Proposed changes to ACAM by EPIP	Proposed changes to ACAM by EPIP	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.	ILPI	Clause is not specific whether changes may immediately be implemented by the EPIP or still subject to the approval of ERC; and if so, when approval may be expected.	The ERC is not assuming a responsibility to approve any ACAM or changes to an ACAM by an EPIP. ACAMs must comply with the BSG and must be filed with the ERC. Therefore ACAM changes can be put into effect immediately. However, if ERC requires changes to an ACAM or adoption of an ERC approved ACAM it may do so (see Section 2.2.2).
12	Guidelines: 2.3 Substance to prevail over legal form	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.[1]	ILPI	Correct referencing to Section 2.1.1(c), not (d)	Correct and noted.
13	Guidelines: 2.4 Materiality	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.	ILPI	Correct referencing to Section 2.1.1(d), not (e)	Correct and noted.
14	Guidelines: 2.8.5 Cost of Auditor's Services	Cost of Auditor's Services	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.	MERALCO	This is only one of the various costs that an EPIP will incur to comply with and implement the BSUP. We suggest that the Guidelines establish a policy and process to allow EPIPs to recover costs of this type.	The arrangements in Section 4.11.1 of the Transmission Wheeling Rate Guidelines shall be edited to make it clear such reasonable regulatory compliance costs are part of the recoverable costs. Likewise for DUs when the Distribution Wheeling Rate Guidelines are developed.
15	Guidelines: 2.11.2 Compliance Report	Compliance Report	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).	CELCOR	As provided under Article 2 of the Business Separation Guideline, the <u>Chief Executive Officer</u> is the one responsible for signing vital documents like Management Responsibility Statement, General Information Sheet and Compliance Report accompanying each Accounting Separation Statement. Aside from the CEO, who else is authorized to sign these aforesaid documents?	CELCOR to elaborate on which other officers might be included or wording change to expand options.
16	Guidelines: 2.12 Documents to be Delivered to the ERC	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: ...	CEPALCO	The timetable for the accomplishment and submission of all the documents (which is within 4 months) may not be sufficient. As experienced, the audited financial statements for the bundled utility services are available at the end of April. It would take a longer time when separate accounts are required for each business segment. We suggest the retention of the prevailing submission date for the annual reports to the ERC, which is the end of May of each year.	Audited financial statement usually available in March. Once accounting systems have been set up, BS reports should be able to be delivered one month later. Suggest 1 months extension be available for the first reporting cycle upon application. CEPALCO to elaborate.
17	Guidelines: 3.1.3 ( c ) Cash Flow Statement	Cash Flow Statement	An Electric Power Industry Participant must prepare and submit to the ERC, in accordance with this Guideline, the following Accounting Separation Statements: ... ( c ) (c) cash flow statement for each Business Segment;	CELCOR	Is the Cash Flow Statement to be prepared for each major business segment (generation, transmission, distribution and supply)? Refer to Transmission and Distribution Cash Flow Statements on pp. 53 and 60, respectively.	Yes. Columns for business segments in Transmission and Distribution were omitted in the draft BSG. Elaborate on any concerns.
18	Guidelines: 3.4.4 Allocation of direct, indirectly attributable and unattributable costs and revenues	Allocation of direct, indirectly attributable and unattributable costs and revenues	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.	CELCOR	Administrative support services (HR, Finance, Legal) -- How do we allocate these costs to the different business segments? Can the Commission give us a clear cut / guideline on how to treat these kind of indirect costs?	Activity based costing techniques should provide a reasonable method of allocation (refer Section 3.4.4 of BSG).

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19	Guidelines: 3.4.4 Allocation of direct, indirectly attributable and unattributable costs and revenues	Allocation of direct, indirectly attributable and unattributable costs and revenues	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.	MERALCO	We would like to request for clarification concerning the treatment of business overhead or "shared services" (e.g., HR, Finance), particularly, related assets, costs, and personnel. We are recommending that the Filing Package provide EPIP's guidance on the accounting and organizational separation to be required for Shared Services.	This guidance is provided by the principles in s.3.4 of the BSG and the proposed ACAMs.
20	Guidelines: 3.4.14 Allocation of Income Tax	Allocation of Income Tax	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.	First Gas	Unless otherwise decided, if income tax remains in the return on rate base (RORB) formula, then at least for regulated entities, this should be clearly allocated to such business segment to assure that the returns are prescribed properly.	BSG is not intended to provide the regulatory data used for rate setting. Allocation of interest and income tax between segments is somewhat arbitrary. As such ERC has suggested such allocation is unnecessary. Also RORB (or PBR) may not apply to all the business segments. Generation and Supply are moving to market based pricing arrangements.
21	Guidelines: 3.6.4 Inter-segmental Transactions and transfer pricing principles	Inter-segmental Transactions and transfer pricing principles	Inter-segmental Transactions must be disclosed	First Gas	The need to divulge the information for transactions between two (or more) Business Segments both operating under a competitive environment is unclear. Understandably for regulated entities, there is a need to ensure that the regulated business does not subsidize the competitive business. We recommend that requirement be confined only to Distribution Utilities and Transco.	The ability to cross subsidize to reduce competition is also possible between, for example, a distribution utility and a related supply business. Likewise between a regulated and a non-regulated business. So the ERC would prefer to see all inter-segmental transactions.
22	Guidelines: 3.6.4 Transfer Price	Transfer Price	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).	MERALCO	For clarity, we recommend that Section 3.6.4 read: "The transfer price is the cost recorded by the Business Segment acquiring the service from another Business Segment or from another business conducted by a member..." This would make it easier to determine if participants acquiring a single type of service from the particular Business Segment are paying the same price.	Noted. Additional suggested changes are: "A transfer price for a product or service is the cost recorded by the Business Segment acquiring the product or service from another Business Segment or from another business conducted by a member ..."
23	Guidelines: 4.4 Distribution Business Segment	Distribution Business Segment		CEPALCO	Are the Business Segments other than Distribution Services (e.g. Connection, Metering, Billing and Collection) to be regulated by the ERC if done by entities other than the franchised distribution utility? And if not regulated, can a company affiliated with the distribution utility provide these services for the distribution utility, assuming that the charges and fees are competitive? Alternately, can the distribution utilities obtain these services from independent service providers, with the regulation coming in the form of caps for the charges for such services?	The cost for outsourced services provided to the regulated entity is covered by the rate setting methodology used by the ERC. Thus the form and level of such costs will be scrutinized while the ERC is setting rates. Such costs should be at a level which reflects the competitive nature of outsourcing arrangements, and hence unusually high costs would be scrutinized during the rate review process. The ERC shall always aim for removal in cross-subsidies, and for transparency and this is the focus of the BS reporting.
24	Guidelines: 4.4 Distribution Business Segment	Distribution Business Segment	1). Distribution Services; 2) Distribution Connection Services; 3) Metering Services; 4) Related Businesses; 5) Regulated Customer Services; 6) Non-Regulated Retail Services	DECORP	Are these named business segments just a proposal? Can the Distribution Utility propose its own structural and functional unbundling?	They are considered to be appropriate to implement the requirements of the EPIRA and the IRR (see Rule 10, s.2 (a) through (f)). In addition it is necessary to maintain consistency between EPIPs.
25	Guidelines: 4.4 Distribution Business Segment	Distribution Business Segment	1). Distribution Services; 2) Distribution Connection Services; 3) Metering Services; 4) Related Businesses; 5) Regulated Customer Services; 6) Non-Regulated Retail Services	DECORP	The Distribution Business are divided into six (6) segments. There is duplication in actual services to be rendered amongst these segments.	"Billing, collection, customer service, energy trading and electricity sales" are activities which must be undertaken for both Contestable and Captive customer segments. They are likely to be undertaken, in part, by the same IT systems and in some cases people. However the costs allocated to each business segment from each activity need to be properly separated to achieve "structural and functional" separation. Non-separation shall not achieve the requirements of the EPIRA of the IRR. Elaborate on the overlap which causes concern.
26	Guidelines: 4.4 Distribution Business Segment	Distribution Business Segment	1). Distribution Services; 2) Distribution Connection Services; 3) Metering Services; 4) Related Businesses; 5) Regulated Customer Services; 6) Non-Regulated Retail Services	TEI	Six (6) business segments have been identified, i.e. separating distribution services from distribution connection services, will there be any significant effect in the Company's reporting if these be considered as one?	Single reporting would negate the primary principles needed for the BSG under the EPIRA and IRR. Such an approach would breach the requirements of s.36 and s.26 of the EPIRA. Need to separate the non-contestable from the potentially contestable.
27	Guidelines: 4.4 Distribution Business Segment	Distribution Business Segment	1). Distribution Services; 2) Distribution Connection Services; 3) Metering Services; 4) Related Businesses; 5) Regulated Customer Services; 6) Non-Regulated Retail Services	TEI	Section 22 of RA 9136 provides that the Distribution Sector shall be a regulated common carrier business. Why do the segments include a "non-regulated" (i.e. Non-Regulated Service Business Segment)?	There is a transition for each customer segment from being Captive or non-contestable (regulated) to being Contestable (non-regulated) (see IRR Rule 12, s.4). During this period there is a need for clarity which can only come from complete reporting and from the ability to ensure reconciliation to the overall business accounts. Also s.26 of the EPIRA is quite clear in requiring "that separate accounts are maintained for each business undertaking to ensure that the distribution business shall neither subsidize in any way such business undertaking nor encumber its distribution assets in any way to support such business."

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28	Guidelines: 4.4 Distribu-tion Segments: Asset Classifica-tion	Distribution Segments: Asset Classification		CEPALCO	Will the solar panels owned by the distribution utilities be classified as Distribution Services assets (under the ancillary services sub-segment) or as generation assets? Will capacitor equipment be placed under distribution services or ancillary services?	Capacitor equipment which forms part of the distribution network should be included in the Distribution services segment (i.e.: it provides a network Ancillary Services function). Where solar panels are primarily for frequency or voltage control, or to support data gathering activities they should be in the Distribution services segment (i.e.: it provides a network Ancillary Service function). If they are primarily for generation of electricity then they should go into the Generation segment. The latter is identified where/if solar panels are required to have a Certificate of Compliance, as required for a Generator.
29	Guidelines: 4.4 and 4.5 Distribu-tion / Supply Business Segments	Distribution / Supply Business Segments		NASECORE	In general and consistent with our position that Business Separation and Unbundling should be to strengthen the consumer or end-user sector, the functions of the Distribution Sector, vis-à-vis Electricity Supply, especially in regard to servicing its customers, should be clearly defined.	Noted. The Non-regulated Retail Services segment of a DU is effectively undertaking the same business activity as the Supply business.
30	Guidelines: 4.4 and 4.5 Distribu-tion / Supply Business Segments	Distribution / Supply Business Segments		VECO	The proposed requirement of ERC for an electric power industry participant to unbundled their business activities into seven business segments with corresponding separation of books and records entails complicated measures to put things into their proper perspective to be able to complete the requirements. At the onset of this implementation, it is deemed appropriate that the utility business activities be unbundled into four (4) major segments instead of the required segments. Initial concentration on putting these four major segments to their proper perspective would enable a utility ( us ) to familiarize every details and aspects of these just starting out recording activities. Four major segments are: 1) Distribution (combining Distribution Services and Distribution Connection Services); 2) Metering Services; 3) Supply for Regulated Customers (regulated customer services will be recorded as miscellaneous income) (combining Regulated Customer Services & Supply); and 4). Non-regulated Retail Services and Related Businesses	The industry is about one and a half years away from the introduction of open access and retail competition. Rule 10 of the IRR specifically prohibits participation by DUs in Retail Competition and Open Access (IRR Rule 10, s.3 (c) (iii)) and prohibits operating in a Contestable Market (IRR Rule 10, s.4 (a)), unless they have "structurally and functionally unbundled" their business. The DUs need to move to complete implementation of the BSG as soon as possible in order to be eligible to operate in the contestable market. Four major segments would not meet the requirements of the EPIRA and the IRR as previously noted (see rows above on Section 4.4 for CEPALCO, DECORP and TEI)
31	Guidelines: 4.4.6 Distribu-tion Connection Services Business Segment	Distribution Connection Services Business Segment	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).	CEPALCO	We understand that assets for the Connection Services segment of distribution utilities would consist of the service drops (from point of connection to low-voltage lines to point of connection to customer-owned facilities) in the case of customers connected the secondary or low-voltage lines, and the dedicated wires and equipment, including HV disconnect switches, that connect customers to the high-voltage system. Is this correct?	Yes. While such services currently appear to be provided by assets which are bundled within the DU regulatory asset base and are recovered in the distribution wheeling rates, these services may become contestable in the future and be offered to generators or loads by suitably qualified businesses other than the DU. As such it has been separated as segment on its own.
32	Guidelines: 4.4.6	Distribution Connection Services Business Segment	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).	MERALCO	We are suggesting that the Guidelines specify where the assets of one Distribution Business Segment (e.g. Distribution Services) ends and where that of the other Distribution Business Segment (e.g. Distribution Connection Services) begins.	The Distribution Code defines the "connection point" as the point between a User system and a Distribution system. The Distribution connection services relate to services provided using un-shared distribution assets which form part of the Distribution system, and are not part of a User system (i.e.: are not owned by the End-user). Elaborate on alternative approach recognizing that an OADS will be needed under s.31 of the EPIRA, and Rule 12 of the IRR.
33	Guidelines: 4.4.6 (a) Distribu-tion Connection Services Business Segment	Distribution Connection Services Business Segment	This segment comprises the provision of distribution connection services - namely: (a) the provision of capability at each Connection Point to a Distribution System .....	NASECORE	We recommend that this should specifically refer to the provision of capability to deliver electricity to the Connection Point both to its Captive Market and Suppliers.	Noted, words shall be reviewed for clarity.
34	Guidelines: 4.4.10 Metering Services Segment	Metering Services Segment	This segment comprises the provision of metering services, namely the provision, installation, commissioning, testing, repair and maintenance of meters and meter reading.	DECORP	The Meter Reading function, which used to be an integral part of billing and collection services, is now transferred to Metering Business Segment, is this feasible? What change shall be applied by a distribution utility doing the meter reading for a separate supply entity supplying electricity to the contestable market?	The Meter Reading function may be undertaken for contestable and non-contestable customer segments. Either way the costs need to be separated, and the charges applied should be the same for services provided to a related or a non-related businesses, operating in either the contestable or non-contestable customer segments.
35	Guidelines: 4.4.10 Metering Services Segment	Metering Services Segment	This segment comprises the provision of metering services, namely the provision, installation, commissioning, testing, repair and maintenance of meters and meter reading.	DECORP	Meter Reading be part of Regulated Customer Service and/or Non-Regulated Retail Service as it is a customer-related function.	Metering services will have to be provided to Supply businesses who are directly competing with the DU for End-users directly connected to it. Clear separation of the costs for Metering services are required to ensure competitively neutral access to Metering services for these competitors. Structural separation is not being mandated at this point.

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36	Guidelines: 4.4.10 Metering Services Segment	Metering Services Segment	This segment comprises the provision of metering services, namely the provision, installation, commissioning, testing, repair and maintenance of meters and meter reading.	ILPI	Meter Reading is essentially part of the whole revenue cycle. Shouldn't Meter Reading be integrated with billing in the interest of time, cost and operational efficiency? Please evaluate in the light of technology available such as on-site billing which integrates the meter reading and billing functions. NOTE: In the WESM rules, meter reading is not part of the responsibility of a metering services provider.	Accounting separation does not effect the efficiency of service delivery. Structural separation might have an impact. ILPI to elaborate on "pay-as-you-go" metering systems (can retail competition be supported by this technology?) The meter reading activity captured here is both WESM meter reading and End-user meter reading. As such the costs of End-user meter reading shall appear as a transfer price into either the Regulated Customer Services and Non-regulated Retail Services segments depending on the usage of these services. ILPI to elaborate on why End-user meter reading should be treated differently and be bundled with retail activities.
37	Guidelines: 4.4.10 Metering Services Segment	Metering Services Segment	This segment comprises the provision of metering services, namely the provision, installation, commissioning, testing, repair and maintenance of meters and meter reading.	MERALCO	The technical aspects of metering (e.g., provision, installation, commissioning, testing, repair, and maintenance) require a totally different set of competencies compared to that of meter reading. Furthermore, meter reading naturally forms part of the billing and collection processes. Hence, we recommend that the responsibility for providing the meter-reading service should be integrated with the Regulated Customer Services and Non-Regulated Retail Services Business Segments; not with the Metering Services Business Segment.	Noted see DECORP 4.4.10 above.
38	Guidelines: 4.4.10 Metering Services Segment	Metering Services Segment	This segment comprises the provision of metering services, namely the provision, installation, commissioning, testing, repair and maintenance of meters and meter reading.	NASECORE	We recommend that this business segment under the Distribution Business Segment must be well-defined to mean services both to its Captive Market and Suppliers who will sell electricity to end-users who are included in the Contestable Market in order to clearly differentiate this from the Metering Services that is inherent in the Supply Business Segment.	Noted, words shall be reviewed for clarity.
39	Guidelines: 4.4.14 Related Businesses Business Segment	Related Businesses Business Segment	This segment comprises the provision of all other services, and the carrying out of all other activities, that utilize distribution assets, facilities or staff, including: (a) electricity related services, such as the construction and maintenance of customer installations; and (b) non-electricity related services, such as telecommunications services.	CELCOR	Sec. 26 of the EPIRA states that 50% of the Net Income derived from such related undertaking utilizing the same distribution assets should be used to reduce the distribution wheeling charges as determined by ERC. In relation to Sec. 4.4.14 of the BSUP Guidelines, how do we present the revenue that will accrue from this specific activity in Appendix E to be found in page 57. Do we add half of this revenue to the distribution services and keep the other half for the related business segment or do we just record this revenue fully as a related business segment income?	Record this revenue fully as a related business segment income. Adjustment to distribution wheeling charges shall be treated as a separate issue.
40	Guidelines: 4.4.14 Related Businesses Business Segment	Related Businesses Business Segment	This segment comprises the provision of all other services, and the carrying out of all other activities, that utilize distribution assets, facilities or staff, including: (a) electricity related services, such as the construction and maintenance of customer installations; and (b) non-electricity related services, such as telecommunications services.	CEPALCO	Does this segment include businesses that do not use distribution assets (but use distribution utility staff), such as meter reading or billing for water or for other distribution utilities, and sale or maintenance of security lights, security systems or electric appliances?	Yes. Clear separation of the costs (including staff costs) associated with these business activities is required.
41	Guidelines: 4.4.14 Related Businesses Business Segment	Related Businesses Business Segment	This segment comprises the provision of all other services, and the carrying out of all other activities, that utilize distribution assets, facilities or staff, including: (a) electricity related services, such as the construction and maintenance of customer installations; and (b) non-electricity related services, such as telecommunications services.	MERALCO	The definition of Related Businesses Business given in the section may be interpreted to assume that if a facility does not convey electricity then its use and management immediately falls under the Related Businesses classification. This definition does not consider facilities employed in vital and essential support activities for the distribution of electricity. We therefore recommend that the Related Businesses Business be composed of business activities that use distribution utility assets but are not used to perform or provide support to electricity distribution or customer services.	Noted, an amendment to s.4.4.3 may be necessary to include "vital and essential support activities for the distribution of electricity". MERALCO to elaborate if needed.
42	Guidelines: 4.4.18 4.4.22 4.5.2 Distribution / Supply Business Segments: Definition of Energy Trading	Distribution / Supply Business Segments: Definition of Energy Trading	4.4.18 (a) energy trading (including hedging activities) undertaken in connection with the sale of electricity to End-users who are included in the Captive Market; and ..... 4.4.22 (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 ..... 4.5.2 (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 ....	CEPALCO	Is it correct to assume that the term "energy trading" includes purchase of electricity through bilateral contracts, and is not restricted to transactions in the WESM?	Yes. All costs and revenues related to WESM, hedging (e.g.: bilateral contracts, swaps etc) and management of the energy trading book should be divided on a cost causation basis, and included in the related segment.

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43	Guidelines: 4.4.22 Non-Regulated Retail Services Business Segment	Non-Regulated Retail Services Business Segment	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.	NASECORE	We recommend that this business segment be treated as a separate juridical entity in order to reflect the real manpower requirement in both the purely Distribution Sector (wires business) and the Supply Sector operated by a Distribution Utility which will include retail supply to the Captive Market. This separation will inevitably lead to manpower reduction as experienced by the NPC which will translate to lower administrative cost and therefore, lower cost of electricity. Treating this segment as a mere separate division or department within a single company creates a built-in subsidy scheme for unnecessary manpower making the electricity cost, which is shouldered by the consumers, higher.	Noted. Structural separation is not being mandated except to the extent required under Section 5.4.1.
					It will be very prudent on the part of the Commission to look carefully into this by requiring all utilities to submit two (2) applications. The first should show the separation of the different activities through the creation of a division or a department within a single company and the second, should show the separation through the creation of a separate juridical entity. These two applications will allow the Commission to examine and evaluate which of the two structural unbundling schemes will lead to a fair, reasonable, and affordable cost.	
44	Guidelines: 4.4.23 Non-Regulated Retail Services Business Segment	Non-Regulated Retail Services Business Segment	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.	MERALCO	There appears to be a typographical error in the first sentence. Section 4.4.23 should read: "The assets included in this Business Segment are all assets used directly, or a relevant share of the shared assets which are used, to provide the <b>non</b> -regulated services referred to in Section 4.4.22."	Correct and noted.
45	Guidelines: 4.4.23 Non-Regulated Retail Services Business Segment	Non-Regulated Retail Services Business Segment	The assets included in this Business Segment are all the assets used directly, or a relevant share of the shared assets which are used, <b>to provide the regulated services referred to in Section 4.4.22.</b> 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.	TEI	This provision is deemed inconsistent with the provision of Section 4.4.22 of this guidelines (while both pertain to the same business segment), i.e. <i>... "to provide the regulated services referred to in Section 4.4.22 .."</i> , whereas the said services, as the name suggests, are "non-regulated". In addition, in the first paragraph of Rule 10 of the IRR provides for a clear separation of accounts between regulated and non-regulated business activities. Doesn't the inclusion of the business segments create confusion?	See comment on Section 4.4.22 by MERALCO above.
46	Guidelines: 4.5.2 Supply Services Business Segment	Supply Services Business Segment	This segment comprises supply services provided by a Supplier, namely the sale of electricity to End-users who are included in the Contestable Market	DECORP	The Supply Business Segment shall now be limited only to the contestable market. When and how will the captive market benefit from the full realization of open competition?	A DU also has the Non-regulated Retail Services segment which is effectively the DU related business which will compete with the Supply Business segment. Contestability triggers for open access are provided in s.31 of the EPIRA and Rule 12, s.4 of the IRR.
47	Guidelines: 4.5.2 Supply Services Business Segment	Supply Services Business Segment	This segment comprises supply services provided by a Supplier, namely the sale of electricity to End-users who are included in the Contestable Market	NASECORE	We recommend that the provision of Section 4.4.10 (Metering Services Business Segment) should fall under this segment, namely: Installation, commissioning, testing, repair & maintenance of meters and meter reading. It should be noted that suppliers can, likewise, act as an Aggregator when the threshold is reduced down to 750KW which should Meter Services, all the more, under this Supply Services Business Segment.	Noted. Refer also discussion under MERALCO and CEPALCO Section 4.4.6, above.
48	Guidelines: 5.1 Prohibition on discrimination	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.	MERALCO	We recommend that prohibitions on discrimination by the distribution utilities be also made to apply to TransCo.	Noted. These prohibitions on discrimination are not required for a Transco because unlike DUs it is not allowed to have an affiliate which retails electricity (EPIRA s.45 and other). Accordingly it should have no incentive to discriminate between retailers.

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#	Section No. / Topic	Topic	Guideline Provision	Company	Comments / Recommendations	ERC Staff Remarks
49	Guidelines: 5.2.2 Disclosure of Information	Disclosure of Information	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.	CEPALCO	Does Section 5.2.1 require the distribution utility to keep on file a written consent from all its customers in the Contestable Market for the use by the utility of information relating to the customer in connection with the sale or offering for sale of electricity to the customer? It should be noted that in selling electricity to the customer, it is necessary to use information about the customer.	Usually the contract signed with a contestable customer would include provisions on how the DU will use the customer's information including service and billing addresses, and consumption etc. Written consent would thus normally be obtained and should be retained (BSG may need to be amended to mandate this). Note the provision is primarily aimed at ensuring the information gathered by the DU on a contestable customer within its franchise area, is NOT AVAILABLE to the DU's affiliated Non-regulated Retail Services business segment to assist a "win back".
50	Guidelines: 5.2.2 Disclosure of Information	Disclosure of Information	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.	MERALCO	The scope of the information and the manner by which it will be disclosed is open-ended. Since this would affect the manner of separation, we are recommending that the data for disclosure be specified in the Guidelines. Also, we recommend that all the data be submitted to the ERC on a regular basis, where all other EPIPs would be allowed (by ERC) access to the information.	This obligation is deliberately intended to apply to a range of information. MERALCO to elaborate on the information it believes should be specified in the Guidelines. Consideration of use of web page for posting by EPIPs shall be considered.
51	Guidelines: 5.2.2 and 5.2.3 Disclosure of Information	Disclosure of Information	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.	First Gas	Information should be disclosed to <b>all</b> participants. To ensure a level playing field, we recommend that the timing is also prescribed -- that no one entity be given any such information in advance and that disclosure of such information to all industry participants be simultaneous.	While posting on a web site (for example) makes information available simultaneously, each entity would have to access it before knows what information has been released. This is the best that is likely to be achieved.
52	Guidelines: 5.2.4 Disclosure of Information: Generation Companies	Disclosure of Information: Generation Companies	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	First Gas	We recommend that this provision be deleted since such information are sensitive / confidential considering the competitive nature of the generation business.	The market must be properly informed of matters affecting operation and hence pricing outcomes in the market.
53	Guidelines: 5.4.1 Bilateral Contract with Affiliated Utility	Bilateral Contract with Affiliated Utility	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.	First Gas	The BSUP Rules should clarify that this clause shall not prejudice contracts entered into prior to RA 9136, and correct the cross-referencing to Section 45 (b) not Section 45 (a).	Noted, see Section 5.4.1 by MERALCO below.
54	Guidelines: 5.4.1 Generation of Electricity for Distribution Utilities	Generation of Electricity for Distribution Utilities	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.	Delta P.	If the existing Purchase Power Agreement (PPA) is in effect between NPC and an IPP serving almost 100% of total demand of the distribution utilities like EC (Electric Cooperatives), will it be mandatory then that EC may enter into several power supply contracts to meet the 50% as stipulated, in order not to breach the competition rules? In general, how will it affect the existing PPA, particularly if it means not complying in this clause?	This provision is aimed at DUs and their Affiliated generation business which provide power under a contract. It does not relate to non-affiliated business transactions. Refer also to Rule 11 s.5 (a) and (b) of the IRR.

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#	Section No. / Topic	Topic	Guideline Provision	Company	Comments / Recommendations	ERC Staff Remarks
55	Guidelines: 5.4.1 Generation of Electricity for Distribution Utilities	Generation of Electricity for Distribution Utilities	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.	MERALCO	We believe that language from the IRR (Rule 11, Section 5, b) is clear enough and could be adopted by the Guidelines.	This obligation is additional to that included in the IRR. It is intended to prevent an EPIP from avoiding the IRR prohibition by having the one entity which both generates and distributes the electricity. Word change to "...engaged in generation, and that constitutes a breach of Section 45(b) of the EPIRA (contracts entered into prior to the effectivity of the EPIRA not being prejudiced for this purpose), then that will also be a breach of the Competition Rules by virtue of Rule 14(7) of the Competition Rules."
56	Guidelines: 5.6 Common directors, officers and employees	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.	CELCOR	A more detailed explanation will enable us to fully comprehend the impact of this specific article in our separation tasks.	Noted, see examples in ILPI Section 5.6 below.
57	Guidelines: 5.6 Common directors, officers and employees	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.	First Gas	The BSUP Rules should clarify the meaning and intent of Article 5.6.	The purpose of Article 5.6 is to prevent collusion between unrelated EPIPs through the transfer of information by way of common Directors, Officers or Employees.
58	Guidelines: 5.6 Common directors, officers and employees	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.	ILPI	Shouldn't this be limited only between EPIP involved in the transmission business segments and the EPIPs? Is limitation necessary down to employee level? Please further clarify implication in order for us to make sensible comments (examples may help).	This obligation is unrelated to the prohibitions imposed on Transco under s.45 of the EPIRA. Provision goes down to employee level, although issues at lower levels in an organization are unlikely to exist. Examples are a person acting as a Director in both corporate groups. Or a Senior Manager in one group being a director in another. Or a person being a Senior Manager in both corporate groups.
59	Guidelines: 5.6 Common directors, officers and employees	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.	MERALCO	These provisions may encroach upon the authority given to the Securities and Exchange Commission (SEC) by R. A. 8799 also known as the Securities Regulation Code.	Noted. These are intended as additional obligations. Provisions of RA8799 are being reviewed.
60	Guidelines: 5.7 Sale of electricity to the Contestable Market	Sale of electricity to the 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.	CEPALCO	Any brand name (other than its own name) used by a distribution utility in selling to the contestable market will be eventually connected to, and identified with, the distribution utility. What is the use of reporting that a brand name or logo not be used which will suggest a connection with the distribution utility? We point out that brand names may significantly influence customer choice in the developed electricity markets, but brand names are probably insignificant in the determination of customer choice in the Philippine electricity market. If so, then this concern about brand names is an unnecessary complication.	Noted. CEPALCO to elaborate on why Philippines electricity market might be different from developed electricity markets with respect to branding.

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61	Guidelines: 5.7 Sale of electricity to the Contestable Market	Sale of electricity to the 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.	DECORP	Will this provision still be applicable when an Affiliate of a Distribution Utility sells electricity to the Contestable Market outside the franchise area of the Distribution Utility? If a customer in the Contestable Market asked for reference, can the Affiliate disclose its Distribution Utility?	Noted. Marketing outside franchise area cannot be quarantined and are likely to flow back to the franchise area, and hence it is necessary to maintain the prohibition in this form. Code of Conduct addresses this issue.
62	Guidelines: 5.7 Sale of electricity to the Contestable Market	Sale of electricity to the 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.	MERALCO	This provision presupposes that an Affiliate using the name or logo of its parent company has an advantage over its competitors. This has not been demonstrated even in other jurisdictions that currently allow this practice. Also, other provisions in the BSUP Guidelines, Draft Competition Rules, and the nature of Open Access already provide sufficient safeguards that will promote and ensure the competitiveness of the market.	Noted, see Section 5.7 by CEPALCO above.
63	Guidelines: 5.8 Code of Conduct	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.	MERALCO	Since it has yet to be released, the required compliance with the Code of Conduct should consider its release date.	Noted, see Filing Package Clause 6 above.
64	Guidelines: Appendix E Accounting Separation Reporting Formats: Distribution Segments	Accounting Separation Reporting Formats: Distribution Segments		CEPALCO	Is the Cash Flow Statement Form for distribution utilities to be submitted only for the distribution utility as a whole, and not for each business segment and sub-segment of the distribution utility?	The proforma cash flow statement will be revised to specifically refer to each of the distribution business segments.
65	Guidelines: Appendix G..2 Transfer prices for capital assets transferred	Transfer prices for capital assets transferred	The transfer of capital assets to an <b>unregulated</b> related entity or internal business segment should be at the <u>greater</u> of prevailing market price or net book value. The transfer of capital assets to a <b>regulated</b> related entity or internal business (i.e. whose prices are subject to regulation by the ERC) should be at the <u>lower</u> of prevailing market price or net book value.	ILPI	There may be a need to review transfer prices for capital assets. Policy should not be discriminatory.	Noted. Elaborate on preferred approach.
66	NONE For inclusion: System Losses	For inclusion: System Losses		MERALCO	ISSUE: Which Distribution business segment would be responsible for electricity pilferage (i.e. subject to the system loss caps mandated by RA 7832)? Would system losses above the cap be treated as "unallocated costs"? RECOMMENDATION: As a cost and as an activity, the Guidelines remain unclear as to the treatment of System Losses. Also, with RA 7832 continuing to be in effect, we believe the Guidelines should specify with whom the responsibilities of system loss reduction and pilferage apprehension reside.	Noted.
67	NONE For inclusion: Transition Cost	For inclusion: Transition Cost		MERALCO	ISSUE: The business re-organization, separation, and reporting required by the Draft BSUP represent significant one-time for the EPIP. RECOMMENDATION: We strongly believe that the EPIP has the right to recover costs it incurred to comply with the BSUP guidelines, which can be classified as transition costs.	Noted, see MERALCO Section 2.8.5 above.
68	NONE General: Tedious Process	General:		First Gas	<b>Cumbersome Process.</b> The BSUP Rules unnecessarily complicates the accounting and financial reporting of industry participants without regard to the current state of affairs between the privately-owned distribution utilities, on one hand, which follow the Federal Uniform System of Accounts, and the numerous electric cooperatives ("ECs") on the other hand, which follow the model of United States cooperatives. These utilities and ECs are in various stages of automating their information systems. Requiring them to transform their business systems into six (6) business segments while leaving them the discretion to allocate joint costs will just result in voluminous sets of information which must be analyzed and approved by the ERC staff and periodically monitored.	The ERC has deliberately adopted a minimalist approach using accounting separation rather than structural separation. The EPIRA mandates the separation of regulated and unregulated businesses and this is what the BSG is designed to achieve. These accounting requirements are not onerous.

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					The ERC is urged to think of the unbundling exercise and the ensuing delays multiplied seven-fold. The objectives of the unbundling process should be clear -- to ensure that there will be no cross-subsidization between the regulated business segments and the unregulated business segments and to ease the consumer's decision process when they choose their own supplier. RECOMMENDATION: Unless the rates are determined separately, unbundling be limited to four business sectors -- generation, transmission, distribution and supply, as stipulated in Rule 15 of the IRR of RA 9136.	
69	NONE General: Regulated & Competitive Industries	General: Regulated & Competitive Industries		First Gas	The unregulated business segments of the industry must enjoy some form of confidentiality as to choice of technology, operational efficiencies and similar information which are competitive in nature and be left to the discipline of market forces to be robust and dynamic. Swamping the industry with forms and periodic reporting will just serve to stifle the dynamism and clog the industry's information system. The ERC should consider limiting the information included in the accounting separation reporting for generation and supply companies shown in Appendix B.	All that is required is Cash Flow Statement, Statement of Assets and Liabilities and Profit and Loss Statement for generation and supply, together with details of inter-segment transactions.
70	NONE General: BSUP Guidelines	General: BSUP Guidelines		DECORP	Is this guideline only a transitional guideline to a full BSUP? Is this mean to usher in the initial implementation and slowly "develop it from within?" The BSUP Guidelines need to be thoroughly deliberated based on its practical applicability and its implication to the utilities and the end-users. The Guidelines is not further consistent with the intention and objectives of deregulation.	BSG designed to be in final form and allow monitoring of the contestable and non-contestable market place, but ERC note that allowance for development is possible through s.2.13 (b) of the BSG.
71	NONE General: Definition of Affiliate	General: Definition of Affiliate		MERALCO	The Draft BSUP Filing Package and Guidelines do not contain a definition of an affiliate. We are recommending that the Guidelines adopt the definition from the EPIRA: "An "affiliate" means any person which, alone or together with any other person, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with another person. As used herein, "control" shall mean the power to direct or cause the direction of the management policies of a person by contract, agency or otherwise. (Section 45, Paragraph 3)" In line with the EPIRA, we suggest that the Guidelines make it clear that the use of the term Affiliate within the BSUP Filing Package and Guidelines is limited to Affiliates within the Power Industry.	Last paragraph of s.1.3 of the BSG covers this definition and should cover what MERALCO suggest. Affiliates outside the power industry may need to be captured where they have transactions with EPIPs. e.g.: affiliated telecom businesses.
72	NONE General: Unbundling	General: Unbundling		CELCOR	Business separation is a foremost undertaking and, as such, EPIPs should be given longer time to thoroughly <u>study</u> and <u>accomplish</u> the voluminous paperwork involved in the preparation and submission of the individual Plan.	BSG and BSUP has been developed to allow EPIPs to meet their obligations under the EPIRA with the smallest amount of effort possible.
73	NONE General: Unbundling	General: Unbundling		CEPALCO	Is it correct to say that after approval of the Business Separation and Unbundling Plan of the distribution utility, the distribution utilities will have to submit to the ERC revised unbundled rates that will separate, for example, the billing and collection charges from the distribution services rates? Will separate rates be required also for sub-segments (under each business segment such as Distribution Services) of the distribution utilities?	No. This is accounting separation at the business segment level and does not require a review of unbundled rates. Unbundling of the businesses at the level of the dot points in the Appendix A is currently not envisaged.

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#	Section No. / Topic	Topic	Guideline Provision	Company	Comments / Recommendations	ERC Staff Remarks
74	NONE General: Unbundling	General: Unbundling		MEWA	MEWA members unanimously favor a structural unbundling where there is <b>"separation of different activities through the creation of separate divisions or departments within a single company with a clear separation of accounts between regulated and non-regulated business activities."</b> Meralco employees prefer the so-called "divisionalized or decentralized" set-up / system within our parent company wherein Meralco still remain the same Meralco that we have worked for and continue to work for in the coming years. Rank and file employees of Meralco have always strived to render "service with integrity to the Filipino nation." Despite criticisms hurled at Meralco, left and right, constructive and otherwise, employees endeavor to give best service to its customers. Our linemen put their lives on the line as they work on live wires and high voltage poles in order to provide the much needed electricity in every Filipino home within Meralco's franchise area.	The BSG does not mandate structural separation. Such a decision is up to the EPIP.
75	NONE General: Unbundling	General: Unbundling		MEWA	MEWA members are of the firm belief that a departmentalized or divisionalized set-up is most practical and logical at the moment. We noted that under Rule 10, Section I of the IRR, Meralco is given the option to structurally unbundle by the creation of different juridical entities with a clear separation of accounts between regulated and non-regulated business activities. To our mind, this set-up will create much confusion to the employees. In fact, it can even lead to unrest once different companies were created to perform the various activities which were previously under Meralco.	Noted, see MEWA General Unbundling above.
					The Napocor experience, where employees staged protest and other mass action, is not unlikely to happen in Meralco. This would be alarming. We do not forget that the EPIRA law aims to privatize the power industry but its effectiveness must still be tested. In the light of present economic conditions, any stoppage of work by workers will definitely hurt the Philippine economy. Any concerted action by employees will have tremendous repercussions which could make foreign investors think twice. This we want to avoid as much as possible.	
76	NONE General: Unbundling	General: Unbundling		MEWA	MEWA members maintain that our security of tenure as well as the benefits under the present MERALCO -- MEWA CBA can best be protected through the divisionalized or departmentalized set-up. Our security of tenure is of vital concern to us. We fear that should Meralco opt to create different entities, the rank and file employees will be the very first casualties. This we feel will not be conducive to industrial stability and peace needed to boost Philippine economy. MEWA will always stand for its members.	Noted, see MEWA General Unbundling above.
77	NONE General: Unbundling	General: Unbundling		TEI	The IRR provides that these business activities (generation, transmission, distribution and supply) may be further unbundled, but would there be ways / means to group these business segments to minimize the possible difficulties a distribution utility may encounter during the process, without prejudicing its purpose?	Noted. Unbundling of the businesses at the level of the dot points in the Appendix A is currently not envisaged. But this might represent the next level of product or service unbundling which could be considered. Further unbundling to tariff segment would be the lowest level of reporting which could be considered.
78	NONE General: Unbundling	General: Unbundling		VECO	Unbundling demands that each business segment have its own books / records coupled with individual sets of financial reporting for regular submission to ERC. But in order to go to recording, proper recognition of assets identified to the corresponding business segment has to be established. Apart from additional cost to effect this, the time factor to implement is a consideration.	Noted. The requirement is for accounting separation, rather than structural separation with separate books. This approach is less intrusive. There is sufficient time to comply with the reporting requirements of the BSG because the first accounting separation statements need only be lodged at the end of the first quarter of 2005.
79	NONE General: Uniform Accounting System	General: Uniform Accounting System		CELCOR	The Commission should immediately come up with its proposed Uniform Chart of Accounts that will be used by the different EPIPs in time with the implementation of their respective business separation plan.	Noted.

**BUSINESS SEPARATION GUIDELINES**

Consolidation of Comments

as of March 4, 2003

#	Section No. / Topic	Topic	Guideline Provision	Company	Comments / Recommendations	ERC Staff Remarks
80	NONE General: Uniform Accounting System	General: Uniform Accounting System		TEI	The Commission is planning to set a new uniform system of accounts, and in our opinion this will affect the preparation of the utilities' Accounting Separation Statement. Does this mean we still have to wait for the resolution of the uniform system of accounts before we could possibly comply with the guideline?	Noted.