

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



**IN THE MATTER OF THE PETITION
FOR APPROVAL/REVIEW OF THE
BUSINESS SEPARATION AND
UNBUNDLING PLANS (BSUP),
PURSUANT TO THE PROVISION OF
SECTION 36 OF R. A. 9136, AND
RULE 10 OF THE IMPLEMENTING
RULES AND REGULATIONS**

ERC CASE NO. 2015-022 MC

**NORTHERN SAMAR ELECTRIC
COOPERATIVE, INC.
(NORSAMELCO),**

Petitioner.

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DOCKETED
Date: **DEC 03 2015**,
By: *M*

ORDER

On May 11, 2015, the Northern Samar Electric Cooperative, Inc. (NORSAMELCO) filed a petition for approval/review of its Business Separation and Unbundling Plan (BSUP) pursuant to the provision of Section 36 of Republic Act 9136 and Rule 10 of its Implementing Rules and Regulations.

In the said petition, NORSAMELCO alleged, among others, that:

1. NORSAMELCO is an electric cooperative duly established and existing pursuant to the provision of P.D. 269, as amended by P.D. 1645 and was issued the franchise to operate by the National Electrification Administration (NEA) on October 10, 1978. The principal office of herein petitioner is located at Brgy. Magsaysay, Bobon, Northern Samar represented herein by its General Manager and Finance Manager;

2. Pursuant to the provision of Section 36 of R. A. No. 9136 and Rule 10, Section 3(b) of its Implementing Rules and Regulations, and pursuant to ERC promulgated Resolution No. 49, Series of 2006 as well as Resolution No. 07, Series of 2012, all Electric Power Industry Participants shall prepare and submit for approval by the ERC its BSUP;
3. In accordance with the provision of paragraph (c), Section 3, Rule 10 of the Implementing Rules, ERC Resolution No. 49, Series of 2006 and Resolution No. 07, Series of 2012, NORSAMELCO submits its BSUP containing the following:

PROPOSED BSUP

CURRENT STRUCTURE

EC PROFILE

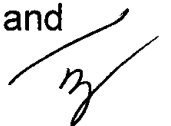
EC Background:

The province is supplied by NORSAMELCO as an electric cooperative, created under PD 269 on October 10, 1978 with franchise area covering 24 municipalities in Northern Samar.

Initially, the NORSAMELCO has operated 2 generators with combined capacity of 300 kW supplying the municipalities of Catarman, Mondragon, San Roque and Pambujan.

In 1985, it has expanded the services by constructing distribution lines of Rosario and Laoang with additional of 250 kw from Northern Samar Integrated Rural Development Program (NSIRD). Power services at that time were limited due to small capacity of NORSAMELCO generators.

In 1989, the 5 megavolts amperes transformer was installed at barangay Dalakit, Catarman and it has started the 24 hours services of electricity in Northern Samar. In 2000, two (2) substations were additionally installed at Brgy. Sabang, Allen (5 MVA), and



Brgy. Bobolosan, Laoang Northern Samar (3.75 MVA). On March 2011, the new installed 15/20 MVA Power Transformer at Brgy. Magsaysay, Bobon Northern Samar was energized.

As of December 2011, the NORSAMELCO has an accumulated total primary distribution line of about 531km primary line and 594.77 secondary lines. The peak load of NORSAMELCO for 2011 is 14,469 kw. It has a Load Factor of 55.95% and a Power Factor of 94.46%.

Coverage Area:

The area coverage of NORSAMELCO are as follows: Catarman, Bobon, San Jose, Rosario, Lavezares, Allen, San Isidro, Victoria, Lope de Vega, Mondragon, San Roque, Pambujan, Laoang, Catubig, Las Navas, Palapag, Mapanas, Lapinig, Gamay, Silivino Lubos, four of these municipalities were served by NPC SPUG consists of Capul, San Antonio, San Vicente, and Biri.

Profile of Customer Served: NORSAMELCO is categorized as medium electric cooperative with a total number of member-consumers as follows:

a) Residential Consumers	-	38,909
b) Low Voltage Consumers:		
i) Commercial	-	1,861
ii) Industrial	-	6
iii) Public Building	-	833
iv) Street Lights	-	104
v) Bapa	-	5,405

Sales/Demand:

Consumer	kWh sold	Amount billed
Residential	- 29,779,918	- 269,258,214.00
Commercial	- 7,467,606	- 64,582,427.00
Industrial	- 663,132	- 5,204,200.00
Public Building	- 4,174,969	- 45,063,691.00

Street Light	-	476,188	-	3,271,317.00
Bapa	-	3,227,951	-	28,949,630.00
Total		45,789,764	-	416,329,479.00

Organizational Structure: NORSAMELCO is divided into several divisions as follows:

a) **BOARD OF DIRECTORS:** consists of six (6) members. However, at present, the Board of Directors were suspended and in lieu thereof, NEA appointed a Project Supervisor/Acting General Manager such that the Management Committee was formed to take-over the function of the Board of Directors;

b) **OFFICE OF THE GENERAL MANAGER:** with the following employees: General Manager, Internal Auditor, and GM's Driver;

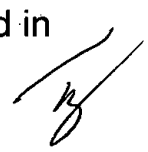
c) **FINANCE SERVICES DEPARTMENT (FSD):**
It is composed of the General Accounting Section (GAS); and Meter Reading/Billing and Collection Section (MRBC);

d) **INSTITUTIONAL SERVICES DEPARTMENT (ISD):**
This Department is composed of the Customer Service/Membership Development Section; and Human Resource Management/Administrative Services Section;

e) **ENGINEERING SERVICES DEPARTMENT (ESD):**
This is composed of the Planning & Design/Special Equipment Section; Warehouse Unit and Metering Section;

f) **CONSTRUCTION, OPERATION, AND MAINTENANCE SERVICES DIVISION:**
This consists of the Substation/Maintenance Section and Construction Section;

Statement of General function of each division:
The general functions/components of various divisions within the organization of NORSAMELCO is found in



the Segregation of Employees which is attached to the application;

Specific functions each division: The detailed function of each division is found in the Segregation of Employees of the submitted documents;

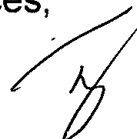
Organizational Chart per division: The over-all Organization Chart of the NORSAMELCO is found in the submitted documents which are attached to the application;

DESCRIPTION OF CURRENT PROCESS The description of Current Process refers to the Read and Bill Process, Collection and Telling, Disconnection Process, Reconnection Process, Consumer Assistance, Service Connection-Large Load/Light Load, and the Procurements Process found in Section 2;

DETAILS OF BUSINESS SEGMENT: NORSAMELCO in the unbundling of its business segment is divided into four (4) segments, as follows:

A) **Distribution Services (DS)** – which consist in the conveyance of electricity through the distribution system and the control and monitoring of electricity. The provision for Ancillary services; Planning, maintenance, augmentation and operation of the Distribution System; provision, installation, commission, testing, repair, maintenance and reading of WESM; the Billing, collection and the provision of customer services directly related to the delivery of electricity;

B) **Distribution Connection Services (DCS)** – provides for the capability at each Connection Point to a Distribution System for conveyance to facilities of persons directly connected to the Distribution System; Planning, installation, maintenance, augmentation, testing and operation of Distribution Connection Assets; and the provision of other services in support of any of the other services;



C) **Regulated Retail Services (RRS)** – the sale of electricity to end-users who are included in the Captive Market; the billing and collection and the provision of customer services to end-users; Energy trading, including the purchase of electricity and hedging activities; and the Sale of electricity to end-users who are included among the Captive Market; and

D) **Related Business Services (RBS)** – the provision of all other services, and the carrying out of all other activities that utilize distribution assets, facilities or staff;

Segregation of Employees – NORSAMELCO's segregation of employees is already contained in the Cooperative Structure and the Description of Function found in Section 2 which include the plantilla of positions allocated based on payroll allocation factor.

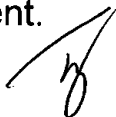
Description of Assets - the description of Assets is also found in Section 2. The assets of NORSAMELCO are allocated into different distribution business segments thru the Asset Allocation factor as stated in the ACAM approved by the ERC.

SECTION 3 - ACCOUNTING SEPARATION

Principles to Achieve Accounting Separation–

CAPITALIZATION POLICY - all assets are capitalized through purchase and donated materials that meet the definition of fixed assets and includes tangible or intangible assets for use in the operation of the cooperative.

The assets may be categorized as Distribution Plant which include land and land rights, structures and improvements, station equipment, poles, tower and fixtures, overhead conductors and devices, line transformers, meters, and street lighting & signal system. General Plant includes warehouse, motor-pool, garage and tennis court, area offices, sub-station quarters, office furniture and equipment, transportation and stores equipment, laboratory equipment, power operated equipment, communication equipment and miscellaneous equipment.



All capital assets are recorded at cost: This include initial acquisition and placement costs; Direct Costs and incremental indirect costs.

BASIC ACCOUNTING PRINCIPLES – NORSAMELCO intends to present its financial statements with the following frameworks, concepts, characteristics and assumptions such as understandability, relevance, reliability, comparability, materiality, consistency, going concern, accrual.

ALLOCATION PRINCIPLES - The allocation methodologies used to allocate costs and revenues to and between Business Segments include: the description of basis, formulae and/or methodology used in respect of each cost and revenue item; The reason for choosing the basis, formula or methodology and; the quantification of any factors applied in allocating un-attributable costs or revenue.

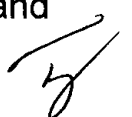
CHART OF ACCOUNTS – NORSAMELCO shall adopt the Chart of Accounts as stated in the approved Accounting and Cost Allocation Manual (ACAM) Chart of Accounts.

AUDIT REQUIREMENTS – All accounting Separation Statements prepared for the purposes of the BSUP Preparation are accompanied by a report prepared, signed and dated by an Auditor.

PROHIBITION ON DISCRIMINATION - NORSAMELCO will ensure that there will be no unreasonable discrimination whether directly or indirectly, between end-users who are in the contestable Market and for users who are in the contestable market.

DISCLOSURE OF INFORMATION – NORSAMELCO ensures that information obtained which relates to End-users in the Contestable Market shall not be used in connection with the sale or offering for sale of electricity except upon written consent of the end-user. This document shall be kept for at least two (2) years and made available to the ERC for inspection.

PROHIBITION ON CROSS-SUBSIDIES – NORSAMELCO ensures that costs incurred in connection with activities undertaken by it, being costs which are not allocated; and



that the assets comprising the Distribution System operated by NORSAMELCO are not encumbered except with the approval of the ERC or for the purposes of securing financial accommodation used solely to fund maintenance, repair, augmentation, extension, replacement or operation of the Distribution System.

SECTION 4 – DESCRIPTION OF SEPARATION

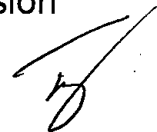
GENERAL STRUCTURE PER BUSINESS SEGMENT: The Business Segment of NORSAMELCO is composed of the following: a) Distribution Service; b) Distribution Connection Service; c) The Regulated Retail Service; d) the Non-Regulated Retail Service; e) Regulated Business Services; and f) Supplier of Last Resort;

DETAILED STRUCTURE PER BUSINESS SEGMENT: This sub-section presents the detailed structure and functions of each business segment stated in Sub-section 4.1 above;

DETAILED STRUCTURE PER DEPARTMENT AND PER DIVISION- This sub-section presents in detail the various structure of the various divisions of NORSAMELCO.

MILESTONES AND HIGHLIGHTS

- | | |
|---------------------|--|
| August 2011 | - Approval of the Accounting and Cost Allocation Manual (ACAM) Model for Electric Cooperatives |
| October 14-17, 2012 | - Re-Orientation on the Business Separation and Unbundling Plan & Pre-filing seminar for batch 5 Electric Cooperatives conducted by PHILRECA and ERC |
| December 13, 2012 | - Pre-filing of BSUP application to the Energy Regulatory Commission (ERC) |
| April 22-26, 2013 | - Conduct orientation seminars to NORSAMELCO Employees |
| March 2015 | - Filing of BSUP application to the Energy Regulatory Commission |



Implementation: Final implementation of the BSUP adopting fully the proposed organization chart is intended not to discriminate those end-users who are in the contestable market either acquiring electricity from other utilities or those acquiring within the cooperative.

NORSAMELCO shall likewise implement in transition period the proposed organizational chart upon the approval of the Application of the Business Segregation and Unbundling Plan by the ERC. For the Regulated service, a point person in charge shall also be assigned. A study and evaluation of the bilateral power supply shall be undertaken by the ETRD Supervisor.

PROGRAMS FOR CODE OF CONDUCT:

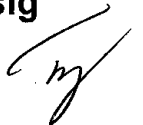
SECTION 6 – CODE OF CONDUCT FOR COMPETITIVE RETAIL SERVICE PARTICIPANTS:

NORSAMELCO shall earnestly comply with the provision of Resolution No. 31 Series of 2006 issued by the ERC pursuant to Sections 43 (t) and 45 of R. A. 9136 and Section 3 (c) (iv) Rule 10 of its Implementing Rules and Regulations. In particular, NORSAMELCO shall comply with the provisions of the Code as provided in Article I, Section 1, thereof to protect consumers and promote consumer confidence in retail electricity and other purposes.

The Accounting and Cost Allocation Manual (ACAM) is being prepared and formulated in accordance with the guidelines issued by this Commission which is attached to the application and partly incorporated in its Business Segregation and Unbundling Plan.

4. It prays that after due notice and hearing, the submitted BSUP of NORSAMELCO be approved.

Finding the said petition sufficient in form and in substance with the required fees having been paid, the same is hereby set for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on **January 21, 2016 (Thursday) at ten o'clock in the morning (10:00 A.M.) at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**



NORSAMELCO is hereby directed to cause the publication of the attached Notice of Public Hearing, at its own expense, once (1x) in a newspaper of general circulation in the Philippines, with the date of the publication to be made not later than ten (10) days before the scheduled date of initial hearing. It is also directed to inform the consumers within its franchise area, by any other means available and appropriate, of the filing of the instant petition, its reasons therefor, and of the scheduled hearing thereon.

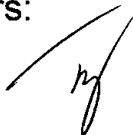
Let copies of the application, this Order and the attached Notice of Public Hearing be furnished the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire, to send their duly authorized representatives at the scheduled hearing.

Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished the Offices of the Governor of Northern Samar and the Mayors of the Municipalities/Cities within NORSAMELCO's franchise area for the appropriate posting thereof on their respective bulletin boards.

NORSAMELCO is directed to furnish all those making requests therefor with copies of the petition and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing and pre-trial conference, NORSAMELCO must submit to the Commission its written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidences on the actual posting and publication of the Notice of Public Hearing consisting of certifications issued to that effect, signed by the afore-mentioned Governor and Mayors or their duly authorized representatives, bearing the seals of their offices, and the affidavit of the Editor or Business Manager of the newspaper where the said Notice of Public Hearing was published together with the complete issue of the said newspaper, and such other proofs of compliance with the requirements of the Commission.

NORSAMELCO and all interested parties are directed to submit, at least five (5) days before the date of initial hearing and pre-trial conference, their respective Pre-trial Briefs containing, among others:



- a) a summary of admitted facts and proposed stipulation of facts;
- b) the issues to be tried or resolved;
- c) the documents or exhibits to be presented, stating the purposes and proposed markings thereof; and
- d) the number and names of the witnesses, with their written testimonies in an individual affidavit form, to be attached to the Pre-trial Brief.

Failure of NORSAMELCO to submit the required Pre-trial Brief and Judicial Affidavits of its witnesses within the prescribed period shall be a ground for cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from said date of cancellation.

As part of the pre-trial conference, NORSAMELCO must also be prepared to make an expository presentation of its petition, aided by whatever communication medium that it may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the petition is all about and the reasons and justifications being cited in support thereof.

SO ORDERED.

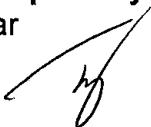
Pasig City, November 4, 2015.

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSE VICENTE B. SALAZAR
Chairman

Copy Furnished:

- 1. Atty. Zenon S. Suarez**
Counsel for Petitioner
Room 601 Web-Jet Building,
No. 64 Quezon Avenue corner BMA St.
Quezon City
- 2. Northern Samar Electric Cooperative, Incorporated (NORSAMELCO)**
Brgy. Magsaysay, Bobon, Northern Samar
- 3. Office of the Solicitor General (OSG)**
134 Amorsolo Street, Legaspi Village,
City of Makati 1229
- 4. Commission on Audit (COA)**
Commonwealth Avenue,
Quezon City 1121
- 5. Senate Committee on Energy**
GSIS Building, Roxas Boulevard,
Pasay City 1300
- 6. House of Representatives Committee on Energy**
Batasan Hills, Quezon City 1126
- 7. The Office of the Governor**
Province of Northern Samar
- 8. The Office of the Municipal Mayor**
Allen, Northern Samar
- 9. The Office of the Municipal Mayor**
Biri, Northern Samar
- 10. The Office of the Municipal Mayor**
Bobon, Northern Samar
- 11. The Office of the Municipal Mayor**
Capul, Northern Samar
- 12. The Office of the Municipal Mayor**
Catarman, Northern Samar
- 13. The Office of the Municipal Mayor**
Catubig, Northern Samar
- 14. The Office of the Municipal Mayor**
Gamay, Northern Samar
- 15. The Office of the Municipal Mayor**
Laoang, Northern Samar



16. **The Office of the Municipal Mayor**
Lapinig, Northern Samar
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Las Navas, Northern Samar
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San Jose, Northern Samar
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San Roque, Northern Samar
29. **The Office of the Municipal Mayor**
San Vicente, Northern Samar
30. **The Office of the Municipal Mayor**
Silvino Lobos, Northern Samar
31. **The Office of the Municipal Mayor**
Victoria, Northern Samar
32. **Philippine Chamber of Commerce and Industry (PCCI)**
3rd Floor, ECC Building,
355 Sen. Gil Puyat Ave., Makati City

