

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



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF
APPLICANT'S (1) BUSINESS
SEPARATION AND
UNBUNDLING PLAN
(BSUP) AND (2)
ACCOUNTING AND COST
ALLOCATION MANUAL
(ACAM) IN COMPLIANCE
WITH R.A. 9136 AND ITS
IMPLEMENTING RULES
AND REGULATIONS**

ERC CASE NO. 2015-105 MC

**MACTAN ELECTRIC
COMPANY, INC. (MECO)
Applicant.**

X-----X

D O C K E T E D
Date: MAR 16 2016
By: WA

ORDER

On 14 December 2015, the Mactan Electric Company, Inc. (MECO) filed an application for the approval of its Business Separation and Unbundling Plan (BSUP) and Accounting Cost Allocation Manual (ACAM) in compliance with Republic Act No. 9136 (R.A. 9136) and its Implementing Rules and Regulations (IRR).

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

1. MECO is a corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal office at Sangi Road, Pajo, Lapu-lapu City, Cebu where it may be served with summons and other legal processes.

2. MECO is the holder of an exclusive franchise to operate an electric light and power services in the City of Lapu-lapu and Municipality of Cordova, both in the Province of Cebu.
3. Section 36 of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (the EPIRA, for brevity), and Rule 10 of the Implementing Rules and Regulation (IRRs) of the EPIRA, require electric power industry participants to structurally and functionally unbundle its business activities.

Accordingly, Rule 10, Section 3 of the IRRs requires the submission of a BSUP for approval by the Commission.

4. In compliance with the aforesaid provisions of the EPIRA and the IRRs, as well as the Business Separation Guidelines, as amended, MECO proposes to adopt, and hereby applies for approval, of its BSUP, which is attached hereto as Annex "A" and ACAM, which is attached to the application as Annex "B".
5. MECO's proposed BSUP is composed of the following sections:

- I. Current Structure
- II. Details of Business Segments
- III. Accounting Separation
Description of Separation
- IV. Accounting and Cost Allocation Manual
- V. Milestones and Highlights
- VI. Code of Conduct



I. Current Structure

MECO was incorporated and registered with the Securities and Exchange Commission ("SEC") on 24 January 1967.

MECO is primarily engaged in the business of electric power distribution. MECO is serving its franchise areas in Lapu-Lapu City, which includes Olango Island and the Municipality of Cordova, with 74,274 connections classified into four (4) schedules of customers namely:

Schedule 4 (residential)

Schedule 3 (commercial, public buildings and street lightings)

Schedule 2 (below 1MW)

Schedule 1 (1 MW above)

Organizationally, MECO has a flat structure manned by eighty five (85) personnel. MECO develops and integrates human resources management and development functions and practices which satisfy organizational manning requirements. It likewise promotes the multi-skilling concept among the existing warm bodies to proactively respond to the segmentation of business activities.

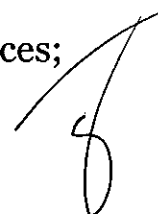
II. Details of Business Segments

The Company has five (5) business segments including Distribution Services, Distribution Connection Services, Regulated Retail Services, Non-Regulated Retail Services and Related Businesses.

Distribution Services

This includes the following:

- a. Provision of regulated distribution services;



- b. Provision of Ancillary Services that are provided using assets which form part of distribution system;
- c. Planning, maintenance, augmentation, and operation of distribution system;
- d. Provision, installation, commissioning, testing, repair, maintenance, and reading for WESM-related meters that are not used to measure the delivery of electricity to end-users or other customers; and
- e. Billing, collection and customer service for customers purchasing distribution and distribution connection services (whether such services are provided to those customers, to suppliers or to any other person).

Distribution Connection Services

This includes the following:

- a. Provision of access services (i.e. Connection services); and
- b. Planning, installation, maintenance, augmentation, testing, and operation of Distribution Connection Assets.

Regulated Retail Services

This includes the following:

- a. Billing, collection, customer service, energy trading, and electricity sales for Captive Market; and
- b. Provision, installation, commissioning, testing, repair, maintenance, and reading of meters that are used to measure the delivery of electricity to customers in the Captive Market.



Non-regulated Retail Services (NRRS)

This includes the following:

- a. Billing, collection, customer service, energy trading, and electricity sales for Contestable Market or for other customers who purchase electricity but are not end-users; and
- b. Provision, installation, commissioning, testing, repair, maintenance, and reading of meters that are used to measure the delivery of electricity to customers in the Contestable Market or to customers who are not End-users (whether such services are provided to those customers, to Suppliers, or to any other person.

Related Businesses (RB)

This includes the related businesses utilizing distribution assets/facilities/staff (i.e. Telecommunications Business utilizing distribution wires and/or poles)

III. Accounting Separation

As required by Rule 10, Section 1 of the Implementing Rules and Regulations (IRR) of RA No. 9136 or otherwise known as the "Electric Power Industry Reform Act of 2001" (EPIRA), MECO has prepared an Accounting and Cost Allocation Manual to be adopted in the preparation of the Accounting Separation Statements (See Annex B, MECO Accounting and Cost Allocation Manual).

IV. Description of Separation

MECO operates as a single juridical entity in the conduct of its business operations which are divided into the following business segments:



- Distribution Services
- Distribution Connection Services
- Regulated Retail Services
- Non-regulated Retail Services
- Related Business

MECO shall maintain a set of books of accounts that will provide Accounting Separation in accordance with duly approved ACAM by the Energy Regulatory Commission (ERC). The Accounting Separation Statements as duly prepared shall be submitted to ERC in addition to the General Purpose Financial Statements that are also regularly prepared and submitted to the Bureau of Internal Revenue (BIR), Securities and Exchange Commission (SEC), and other government agencies.

The Accounting Separation Statements shall be representations of the General Purpose Financial Statements whose amounts (i.e. revenues, costs, assets, liabilities, reserves and provisions) are fairly allocated and/or identified to the various business segments of the company. Reconciliation between the Accounting Separation Statements and General Purpose Financial Statements shall be a necessity prior to their submission.

V. Milestone and Highlights

MECO shall implement the proposed BSUP and ACAM once approved by the Commission. All the departments of MECO will be provided copies of the ACAM and seminar workshops will be conducted to employees responsible for the preparation of Accounting Separation Statements to ensure compliance with the obligations imposed under Section 5.2.1 of the Business Separation Guidelines.



VI. Code of Conduct

MECO shall ensure that it will develop a plan for approval by the ERC to comply with the Code of Conduct that is to be promulgated to regulate matters relating to end-users. Included in the plan are training and development programs for employees to help ensure compliance with that Code of Conduct.

6. In support of the application, MECO most respectfully submits to the Commission, the following documents:

ANNEX	NATURE OF DOCUMENTS
A	Business Separation and Unbundling Plan (BSUP)
B	Accounting and Cost Allocation Manual (ACAM)

7. MECO prays that the Commission, after due notice and hearing, approve its BSUP and ACAM.

Finding the said application to be 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 **April 13, 2016 (Wednesday) at two o'clock in the afternoon (2:00 P.M.) at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

MECO 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, at least 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 application, 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 hearings.



Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished the Offices of the Governor of Cebu City and the Mayors of the Municipalities within the franchise area of MECO for the appropriate posting thereof on their respective bulletin boards.

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

On the date of the initial hearing, MECO must submit to the Commission its written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidences of the actual posting and publication of the Notice of Public Hearing consisting of certifications issued to that effect, signed by the afore-mentioned Administrator/Responsible Officer, bearing the seals of their offices, and the affidavit of the Editor or Business Manager of the newspaper where 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.

MECO 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 thereof and proposed markings therefore; 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 MECO 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, MECO must also be prepared to make an expository presentation of its application, 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 application is all about and the reasons and justifications being cited in support thereof.


SO ORDERED.

Pasig City, 08 March 2016.

FOR AND BY AUTHORITY
OF THE COMMISSION:



JOSE VICENTE B. SALAZAR
Chairman


MLMG/ APV/initial order_2015-105mc

Copy Furnished:

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- 2. Mactan Electric Company, Inc.**
Sangi Road, Pajo, Lapu lapu City
Cebu
- 3. The Commission on Audit**
Commonwealth Avenue
Quezon City
- 4. The Senate Committee on Energy**
GSIS Building, Roxas Boulevard
Pasay City
- 5. The House Committee on Energy**
Batasan Hills, Quezon City
- 6. Office of the City Mayor**
Lapu Lapu City
Province of Cebu City
- 7. Office of the Municipality Mayor**
Municipality of Cordova
Province of Cebu City
- 8. Office of the Provincial Governor**
Province of Cebu City

