

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



**IN THE MATTER OF THE  
APPLICATION FOR  
APPROVAL OF THE  
BUSINESS SEPARATION  
UNBUNDLING PLAN (BSUP)  
PURSUANT TO SECTION 36  
OF REPUBLIC ACT NO. 9136  
AND RULE 10 OF ITS  
IMPLEMENTING RULES  
AND REGULATIONS**

**ERC CASE NO. 2018-002 MC**

**NEGROS OCCIDENTAL  
ELECTRIC COOPERATIVE,  
INC. (NOCECO),  
Applicant.**

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**D O C K E T E D**  
Date: APR 17 2018  
By: [Signature]

**ORDER**

On 25 January 2018, an *Application* dated 10 January 2017 was filed by applicant Negros Occidental Electric Cooperative, Inc. (NOCECO) seeking the Commission's approval of its Business Separation Unbundling Plan (BSUP), pursuant to Section 36 of Republic Act No. 9136 and Rule 10 of its implementing rules and regulations.

NOCECO alleged the following in its Application:

1. Applicant is an electric cooperative duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office address at Brgy. Binicuil, Kabankalan City, Negros Occidental. It has an exclusive franchise to distribute electric service in the cities of Himamaylan, Kabankalan, and La Carlota and in the municipalities of Binalbagan, Candoni, Cauayan, Hinigiran, Hinobaan, Ilog, Isabela, La Castellana, Moises Padilla, Pontevedra, Pulupandan, San Enrique, Sipalay and Valladolid, all in the province of Negros Occidental.

2. Section 36 of Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" (EPIRA), mandates that "(a)ny electric power participant shall functionally and structurally unbundle its business activities and rates in

accordance with the sectors as identified in Section 5 hereof. The ERC shall ensure full compliance with this provision.”

3. Pursuant to the said provision of the EPIRA as well as Rule 10 of its Implementing Rules and Regulations (IRR), the Honorable Commission promulgated Resolution No. 49, Series of 2006, otherwise known as the “Business Separation Guidelines, As Amended,” and Resolution No. 07, Series of 2012, “A Resolution Adopting the Accounting and Cost Allocation Manual (ACAM) for Electric Cooperatives.”

4. In accordance with the foregoing, Applicant is proposing the attached BUSINESS SEPARATION AND UNBUNDLING PLAN (BSUP), so as to effect the structural and functional unbundling of its business activities into the appropriate business segments and segregate the operations and accounts between its regulated and non-regulated activities.

5. Applicant is submitting the said BSUP for the evaluation and approval of the Honorable Commission in accordance with Section 1.4 of the Business Separation Guidelines, as amended.

6. The BSUP of NOCECO contains six (6) sections, briefly summarized below.

#### **SECTION 1 - CURRENT STRUCTURE**

##### **A. PROFILE**

The NEGROS OCCIDENTAL ELECTRIC COOPERATIVE (NOCECO) was incorporated and registered with the National Electrification Administration (NEA) on February 25, 1978. On September 23, 2006, NOCECO was permanently registered with the Cooperative Development Authority (CDA), thereby making NOCECO subject to the provisions of the Philippine Cooperative Code of 2008 (RA 9520).

NOCECO covers 308 barangays with a total land area of 4,186 square km, covering 52% of the total land area of Negros Occidental. Its franchise area is divided into eleven (11) districts, each district being represented by one (1) Board of Director.

The NOCECO Head Office is located at Kabankalan City. Additionally, it maintains five (5) conveniently located sub-offices and 13 field offices.

As of December 31, 2015, NOCECO has 331 employees. It serves 141,463 customers, of which 141,026 are connected to the grid and the remaining 437 served by solar home system.

Total energy sales for the year 2015 reached 195,257,706 kilo-watt hours, 59.5% of which was consumed by residential consumers.

**B. ORGANIZATIONAL STRUCTURE**

The General Assembly is the highest policy-making body of NOCECO, which has exclusive powers that cannot be delegated. It also elects the Election and Audit Committees.

As a CDA-registered electric cooperative, NOCECO has four 3-member committees:

1. Election Committee (Elecom)  
It supervises the conduct, manner and procedure of election and other election related activities.
2. Audit Committee  
It has the power and duty to continuously monitor the adequacy and effectiveness of the cooperative's management control system and audit the performance of the cooperative and its various responsibility centers.
3. Mediation and Conciliation Committee  
It is responsible for formulating mechanisms for the amicable settlement of intra-cooperative disputes.
4. Ethics Committee  
It formulates, develops, implements and monitors the Code of Governance and Ethical Standards (CGES) to be observed by the members, officers and employees of the cooperative subject to the approval of the Board of Directors and ratification by the General Assembly.

The Board of Directors is responsible for the strategic planning, direction setting and policy formulation for NOCECO whereas operations are handled by the Management Staff.

The Cooperative Secretary reports to the General Assembly and the Board of Directors, serving as a link between the Board of Directors and Management Staff.

The Cooperative Treasurer is the custodian of all funds, securities and financial documentation and records. He monitors and reviews the financial management operations of the cooperative, subject to limitations and controls that may be prescribed by the Board of Directors.

The General Manager heads the Management Staff and oversees the operations and practices of NOCECO. The General Manager also supervises NOCECO's seven departments and the Area Sub-Office, which operates as a mini cooperative. NOCECO's operations and services from service connection to reconnection are decentralized in the Area sub-office.

The Assistant General Manager (AGM) assists the General Manager in managing the daily operations of the cooperative and ensures that company standards, policies and strategies are followed. He coordinates with the General Manager in planning

short and long term projects, budgets, expense controls, schedules, and manpower. He develops operational strategy and ensures that the operational activities meet the organizational requirements.

The following are NOCECO's departments:

1. **INTERNAL AUDIT (IAD)**  
The IAD is responsible for the conduct of an independent appraisal of the various operating systems within NOCECO to ensure conformity of transactions to and implementation of policies, guidelines and internal control system. It has three (3) divisions namely: (1) Financial Audit, (2) Institutional Audit and (3) Technical Audit.
2. **HUMAN RESOURCE MANAGEMENT DEVELOPMENT DEPARTMENT (HRMDD)**  
The HRMDD is responsible for designing and implementing Corporate HR Systems and policies, for facilitating, assisting, advising and aiding the other line managers in their task of personnel management, for assisting individual employees in solving problems which effect their general morale and efficiency, and for attending to government and public relations. It is also responsible for ensuring a clean safe and healthy environment, for the procurement of goods and services necessary for the performance of the whole organization, and in seeing to the efficient mobilization and maintenance of company vehicles. The HRMDD has three (3) divisions namely: (1) Administrative, (2) Performance Management and (3) General Services.
3. **CORPORATE COMMUNICATION & CUSTOMER SERVICES DEPARTMENT (CCCSD)**  
The CCCSD is responsible for strengthening the organization's relationship with the consumers and the general public, and in building a positive corporate image. It is also responsible for coordination and serves as liaison of all corporate guests and visitors. The CCCSD has two (2) divisions, namely: (1) Community Relations and (2) Marketing and Customer Service.
4. **CORPORATE PLANNING DEPARTMENT (CORPLAN)**  
The Corplan department is responsible for providing data necessary in formulating sound cooperative business strategies resulting in positive utility economics decisions, for seeing to the effective conduct of corporate and system planning, for conducting corporate performance monitoring, and for ensuring corporate compliance with regulatory requirements. It is also responsible in the administration of the entire management information system. The Corplan department has three (3) divisions namely: (1) Power System Planning, (2) Utility Economics and (3) Management Information System.
5. **FINANCE DEPARTMENT (FD)**  
The Finance department is responsible for preparing and implementing an effective plan that will ensure and safeguard corporate financial security and viability, for preparing and

keeping financial reports as management tools for various decisions, and for ensuring the payment of accounts to all stakeholders. It is also responsible in the protection of all corporate assets. It has four (4) divisions namely: (1) Cost Accounting, (2) General Accounting, (3) Treasury and (4) Material Management.

6. **ENGINEERING SERVICES DEPARTMENT (ESD)**

The Engineering department is responsible for the effective implementation of the electrical distribution system plan, for the operational efficiency and reliability of the electrical and special equipment and apparatus, and for ensuring revenue protection. It has three (3) divisions namely: (1) System Inspection & Design, (2) Electrical Equipment Maintenance and (3) Revenue Protection.

7. **TRANSMISSION & DISTRIBUTION DEPARTMENT (TDD)**

The TDD is responsible for seeing to the operational efficiency and reliability of the distribution facilities. It has two (2) divisions namely: (1) Operation and Maintenance of Transmission Lines and (2) Operation and Maintenance of Distribution Lines.

8. **AREA OFFICES**

The area offices are responsible for ensuring effective performance in attaining the safety and reliability of electric service and seeing to the effective implementation of revenue enhancement/protection measures. These are able to provide a comprehensive customer service with sub-office, technical and field customer service.

C. **DESCRIPTION OF CURRENT PROCESSES**

Reducing the processes into writing will improve the quality of financial reporting, as well as the validity and comparability of financial information, so as to better manage NOCECO. The availability of written guidelines shall also help personnel become more efficient in discharging their duties and responsibilities. Detailed descriptions and flowcharts were prepared for the following processes:

1. Service Connection – Low/High Voltage Customer
2. Read & Bill
3. Cash Receipts (Collection-Remittance-Deposit)
4. Bank Collection
5. Disconnection
6. Reconnection
7. Disconnected Meters – Returning
8. Meter Testing and Sealing
9. Meter Rehabilitation
10. Meter Issuance
11. Requisition
12. Procurement
13. Material Management
14. Customer Assistance

15. Planning and Engineering Design
16. Project Management

Flowcharts of these processes are collectively attached to the BSUP as Annex "A" and labelled as Annexes "1" to "16" thereof.

## **SECTION 2 - DETAILS OF BUSINESS SEGMENTS**

### **A. THE BUSINESS SEGMENTS**

NOCECO may undertake the seven (7) distribution business segments, further classified as either Regulated or Non-Regulated, to wit:

#### **1. Distribution Services (DS)**

This segment covers the following distribution services:

- a. Conveyance of electricity through a Distribution System and the control and monitoring of electricity;
- b. Provision of Ancillary Services (if any) that are provided using assets which form part of a Distribution System;
- c. Planning, maintenance, augmentation and operation of the Distribution System;
- d. Provision, installation, commissioning, testing, repair, maintenance and reading of WESM-related meters; and
- e. Billing, collection and the provision of customer services that are directly related to the delivery of electricity.

#### **2. Distribution Connection Services (DCS)**

This segment covers the following distribution services:

- a. Provision of access services (i.e. connection services);
- b. Planning, installation, maintenance, augmentation, testing and operation of Distribution Connection Assets; and
- c. Provision of other services that support the above services.

#### **3. Regulated Retail Services**

This segment covers the following services:

- a. Billing, collection, customer service, energy trading and electricity sales for the captive market; and
- b. Provision, installation, commissioning, testing, repair, maintenance and reading of meters for customers in the captive market.

#### **4. Non-Regulated Retail Services (NRRS)**

This segment covers the following services:

- a. Billing, collection, customer service, energy trading and electricity sales for the contestable market and other customers who are not end-users; and
- b. Provision, installation, commissioning, testing, repair, maintenance and reading of meters for customers in the

contestable market and other customers who are not end-users.

5. Related Businesses (RB)

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.

6. Wholesale Aggregation (WA)

This segment comprises the Distribution Utility's service of purchasing electricity in bulk and selling it to other Distribution Utilities. It also comprises the provision of Wholesale Aggregation services provided by a Distribution Utility, namely: services pertaining to the sale of electricity to other Distribution Utilities including billing, collection and the provision of basic customer service.

7. Last Resort Supply (LRS)

This segment comprises the provision of Supplier of Last Resort (SOLR) services provided by a Distribution Utility namely: services pertaining to the sale of electricity to SOLR Customers, including billing, collection and the provision of basic customer service.

For this BSUP application however NOCECO only utilized four business segments, namely: (1) Distribution Services (DS); (2) Distribution Connection Services (DCS); (3) Regulated Retail Services (RRS); and (4) Related Businesses (RB). The remaining three business segments may be undertaken in the future, as the need arises, only with ERC approval.

**B. SEGREGATION OF EMPLOYEES**

As of December 31, 2015, NOCECO had a workforce of 346 plantilla positions occupying 94 position titles, of which 331 was filled. The employees were segregated and allocated to the different segments in accordance with the Accounting and Cost Allocation Manual (ACAM) for Electric Cooperatives.

**C. SEPARATION OF ASSETS**

Separation was made in accordance with the Business Separation Guidelines. The distribution was based on the description as well as the purpose for which assets were acquired.

### **SECTION 3 – ACCOUNTING SEPARATION**

Accounting separation is in accordance with the ACAM for Electric Cooperatives.

The Accounting Separation Statements were prepared on the basis that:

- a. Items that are directly attributable to a Business Segment are allocated accordingly;
- b. Items that are indirectly attributable to a Business Segment are allocated using an appropriate allocation method; and
- c. Items that are unattributable to a Business Segment are allocated using a fair and reasonable method.

### **SECTION 4 – DESCRIPTION OF SEPARATION**

NOCECO will remain a single entity, although it is reserving the right to establish a separate juridical entity or Retail Electricity Supplier (RES) as it may deem appropriate. Unbundling will be done merely through accounting separation, the allocation of employees and assets as deemed appropriate.

### **SECTION 5 – MILESTONES AND HIGHLIGHTS**

The milestones and highlights relative to the BSUP are indicated. Full implementation will commence upon ERC approval thereof.

### **SECTION 6 – PROGRAMS FOR CODE OF CONDUCT**

Pursuant to Sections 43(t) and 45 of Republic Act 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA) and Section 3(c)(iv) Rule 10 of its Implementing Rules and Regulations (IRR), NOCECO embraces and shall comply with Resolution No. 31 series of 2006, the “Code of Conduct for Competitive Retail Market Participants,” as promulgated by the Energy Regulatory Commission.

### **ANNEXES**

The flowcharts for NOCECO’s current processes collectively constitute Annex “A” of the BSUP.

The Accounting Separation Statements for 2014 and 2015, as required by Section 3.1.3 of the Business Separation Guidelines, constitute Annex “B”.

Trial Balance worksheets for 2014 and 2015 are attached and made an integral part of the BSUP as Annex “C”.

The audited financial statements of NOCECO for the years ended December 31, 2014 and December 31, 2015 are also attached and made an integral part of the BSUP as Annex “D”, in order to substantiate the prepared Accounting Separation Statements.



**PRAYER**

**WHEREFORE**, premises considered, Applicant respectfully prays that, after due notice and hearing, the Honorable Commission approve and adopt the attached **BUSINESS SEPARATION AND UNBUNDLING PLAN (BSUP)** of NOCECO.

Other just and equitable reliefs are likewise prayed for.

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 determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **15 May 2018 at ten o'clock in the morning (10:00 A.M.), at the ERC Hearing Room, 15<sup>th</sup> Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

Accordingly, NOCECO is hereby directed to:

- 1) Cause the publication of the attached Notice of Public Hearing once (1x) in a newspaper of nationwide circulation in the Philippines at its own expense, the date of the publication to be made not later than ten (10) days before the scheduled initial hearing;
- 2) Furnish with copies of this Order and the attached Notice of Public Hearing the Offices of the Provincial Governor, City and Municipal Mayors, and the Local Government Unit (LGU) legislative bodies within the franchise area for the appropriate posting thereof on their respective bulletin boards;
- 3) Inform of the filing of the Application, its reasons therefor, and of the scheduled hearing thereon, the consumers within the affected franchise area, by any other means available and appropriate;
- 4) Furnish with copies of this Order and the attached Notice of Public Hearing, 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; and
- 5) Furnish with copies of the Application and its attachments all those making requests therefor, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, Applicant must submit to the Commission its written compliance with the aforementioned jurisdictional requirements attaching therewith, methodically arranged and duly marked the following:

- 1) The evidence of publication of the attached Notice of Public Hearing consisting of affidavit of the Editor or Business Manager of the newspaper where the said Notice of Public Hearing was published, and the complete issue of the said newspaper;
- 2) The evidence of actual posting of this Order and the attached Notice of Public Hearing consisting of certifications issued to that effect, signed by the aforementioned Governor, Mayors, and LGU legislative bodies or their duly authorized representatives, bearing the seals of their offices;
- 3) The evidence of other means employed by Applicant to inform of the filing of the Application, its reasons therefore, and of the scheduled hearing thereon, the consumers within the affected franchise area;
- 4) The evidence of receipt of copies of this Order and the attached Notice of Public Hearing by the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress;
- 5) The evidence of receipt of copies of the Application and its attachments by all those making requests therefor, if any; and
- 6) Such other proofs of compliance with the requirements of the Commission.

Applicant and all interested parties are also required to submit, at least five (5) days before the date of the initial hearing and Pre-trial Conference, their respective Pre-trial Briefs containing, among others:

- 1) A summary of admitted facts and proposed stipulation of facts;
- 2) The issues to be tried or resolved;
- 3) The documents or exhibits to be presented, stating the purposes and proposed markings therefore; and

- 4) The number and names of the witnesses, with their written testimonies in a Judicial Affidavit form attached to the Pre-trial Brief.

Failure of Applicant to comply with the above requirements 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 the said date of cancellation.

NOCECO must also be prepared to make an expository presentation of the instant 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.

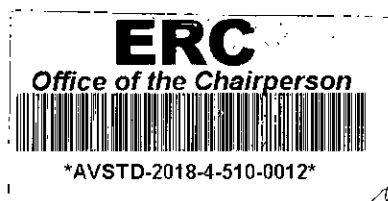
**SO ORDERED.**

Pasig City, 4 April 2018.

FOR AND BY AUTHORITY  
OF THE COMMISSION:

  
**AGNES VST DEVANADERA**  
*Chairperson and CEO*

  
LS: SLAN/KTE/APV



COPY FURNISHED:

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4. Office of the LGU legislative body  
City of Himamaylan
5. Office of the Mayor  
City of Kabankalan

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6. Office of the LGU legislative body  
City of Kabankalan
7. Office of the Mayor  
City of La Carlota
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9. Office of the Mayor  
Binabalgagan, Negros Occidental
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Sipalay, Negros Occidental
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35. Office of the Mayor  
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36. Office of the LGU legislative body  
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37. Office of the Governor  
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38. Office of the LGU legislative body  
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39. Office of the Solicitor General  
134 Amorsolo Street, Legaspi Village, Makati City
40. Commission on Audit (COA)  
Commonwealth Avenue, Quezon City
41. Senate Committee on Energy  
GSIS Bldg. Roxas Blvd., Pasay City
42. House Committee on Energy  
Batasan Hills, Quezon City
43. Philippine Chamber of Commerce and Industry (PCCI)  
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44. Regulatory Operations Service (ROS)  
[Tariffs and Rates Division (TRD)]  
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