

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



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF 1) BUSINESS
SEPARATION AND
UNBUNDLING PLAN AND
2) ACCOUNTING COST
ALLOCATION MANUAL, IN
COMPLIANCE WITH
REPUBLIC ACT 9136 AND
ITS IMPLEMENTING
RULES AND REGULATIONS**

ERC CASE NO. 2021-027 MC

**CAGAYAN ELECTRIC
POWER AND LIGHT
COMPANY, INC.
(CEPALCO),**

Applicant.

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Promulgated:
October 07, 2021

O R D E R

On 15 September 2021, Cagayan Electric Power and Light Company, Inc. (CEPALCO) filed an *Application* dated 01 July 2021, seeking the Commission's approval of its Business Separation and Unbundling Plan (BSUP), and Accounting and Cost Allocation Manual (ACAM), in compliance with Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), and its Implementing Rules and Regulations (IRR).

The pertinent allegations of the *Application* are hereunder quoted as follows:

1. Applicant is a corporation duly organized and existing under Philippine law, with principal office address at CEPALCO Administration Building, Fr. Masterson Avenue, Upper Balulang, Cagayan de Oro City, and is franchised per Republic Act 9284, to construct, own, operate and maintain an electric distribution system in the city of Cagayan de Oro¹, and in the municipalities of

¹ Except the barangays of Baikingon, San Simon, Pagatpat, Tagpangi, Pagalungan, Taglimao, Tuburan, Pigsagan, Tumpagon, Bayanga, Mambuaya, Dansolihon, Tignapoloan, Besigan and a portion of Canitoan, all located in the City of Cagayan de Oro [Republic Act No. 9284, Section 1].

Tagoloan, Villanueva and Jasaan, all in the Province of Misamis Oriental.

2. 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 Regulations (IRR) of the EPIRA, require electric power industry participants to structurally and functionally unbundle its business activities.
3. According to Rule 10, Section 3 of the RRR (*sic*), as well as the Business Separation Guidelines in Resolution No. 49, Series of 2006, as amended, requires the submission of a Business Separation and Unbundling Plan (BSUP) for approval by the Honorable Commission.
4. In compliance with the aforesaid provision, Applicant proposes to adopt and seeks approval of its Business Separation and Unbundling Plan (BSUP) and Accounting Cost Allocation Manual (ACAM), which are hereto attached as Annex "A".
5. The BSUP of CEPALCO is composed of five sections as stated in the attached BSUP-ACAM, as follows:
 - a. Current Structure
 - b. Business Segments
 - c. Accounting Separation
 - d. Milestones and Highlights
 - e. Code of Conduct for Retail Market Participants
6. Below are the salient features of the BSUP:
 - a. Current Structure

CEPALCO is registered with the Securities and Exchange Commission of the Philippines under SEC Registration No. 14210, as amended on July 11, 2008.

CEPALCO operates a distribution system to deliver electric power to Cagayan de Oro City and three nearby municipalities, namely, Tagoloan, Villanueva, and Jasaan Misamis Oriental, per Republic Act 9284.

As of May 2021, CEPALCO is serving 160,784 connections with corresponding peak demand of 259 MW and total monthly energy sales of 124GWh. CEPALCO's customers are classified into 6 classes: 1) Streetlights, 2) Residential, 3) General Service, 4) General Power, 5) Bulk, 69 KV, and 6) Bulk, 138 KV.

Organizationally, CEPALCO is composed of three divisions namely, Engineering Services Division, Customer Services Division, and Finance and Administrative Services

Division. Under the divisions are departments. As of May 2021, CEPALCO employs a total of 393 regular personnel.

b. Details of Business Segments

Under CEPALCO's BSUP, it will have six business segments namely: 1) Regulated Distribution Services, 2) Distribution Connection Services, 3) Regulated Retail Services, 4) Non-regulated Retail Services, 5) Supplier of Last Resort Service, and 6) Related Business

Business Segments	Description
Regulated Distribution Services	<ul style="list-style-type: none"> • The conveyance of electricity through a Distribution System and the control and monitoring of electricity as it is conveyed through the system; • The provision of ancillary services (if any) that are provided using assets which form part of a Distribution System; • The planning, maintenance, augmentation and operation of a Distribution System; • The provision, installation, commissioning, testing, repair, maintenance and releasing of WESM-related meters that are not also used to measure the delivery of electricity to end-users or other customers; and • Billing, collection and the provision of customer services that are directly related to the delivery of electricity to end-users or that relate to the connection of such persons to a Distribution System.
Distribution Connection Services	<ul style="list-style-type: none"> • The provision of capability at each Connection Point to a Distribution System to deliver electricity to or take electricity from the Connection Point, and the conveyance of electricity: <ul style="list-style-type: none"> - from the facilities of persons which are directly connected to the Distribution System to the Connection Point; or - from the Connection Point to the facilities of persons who are directly connected to the Distribution System; • The planning, installation, maintenance, augmentation, testing and operation of Distribution Connection assets, and • The provision of other services that support any of the above services.
Regulated Retail Services	<p>This covers services pertaining to the sale of electricity to end-users who are included in the Captive Market:</p> <ul style="list-style-type: none"> • billing, collection and the provision of customer services to such end-users in their capacity as electricity consumers;

	<ul style="list-style-type: none"> • energy trading (including the purchase of electricity and hedging activities) undertaken in connection with the sale of electricity to end-users included in the Captive Market; and • the sale of electricity to end-users included in the Captive Market.
Non-Regulated Retail Service	<p>Billing, collection, customer service, energy trading and electricity sales for contestable market or for other customers who purchased electricity but are not End-users,</p> <ul style="list-style-type: none"> • 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 persons)
Supplier of Last Resort Service	Billing, collection, basic customer service, energy trading and electricity sales for SOLR customer.
Related Business	Undertakings that utilize the distribution system assets or staff.

c. Accounting Separation

The accounting principles, policies, procedures and allocation methodologies used by CEPALCO in separating the cost, revenues, assets, liabilities, reserves and provisions into the different business segments and ultimately in the preparation of the Accounting Separation Statements are anchored and are pursuant to Sections II, III and IV of the Business Separation Guidelines (BSG) as promulgated under ERC Resolution No. 49 Series of 2006.

The Accounting Separation Statements shall be representations of 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.

d. Description of Separation

CEPALCO shall operate as one juridical entity. Its cost, revenues, assets, liabilities, provisions and reserves are initially to be segregated into the 6 regulated business segments (i.e., Regulated Distribution Services, Distribution Connection Services, Regulated Retail Services, Non-Regulated Retail Business, Supplier of Last Resort Business and Related Business).

Separation of accounts shall be done by applying appropriate allocation factors which are derived based on the principles of revenue and cost allocation as prescribed under Section 3.4 of the BSG:

- i. Classification of revenue and cost into the business segments shall be based on causality or what cause the revenue and cost to arise. In line with Business Separation Guidelines, revenue and cost are classified as either Directly Attributable, Indirectly Attributable, or Unattributable to the business segments.
 - ii. Allocation factors are derived based on activity-based approach or any alternative method that is fair, reasonable and justifiable.
 - iii. Items that cannot be allocated to the business segment shall be included in the reconciliation (reconciling items) of the Accounting Separation Statement to the General-Purpose Financial Statement.
- e. Milestone and Highlights

CEPALCO shall implement the proposed BSUP-ACAM once approved by the Commission. Copies of the manual will be provided to appropriate departments and seminar or workshop will be conducted for employees who will be involved with the preparation of the Accounting Separation Statements.

Pending the required enhancement of the financial system, the existing allocation shall be done temporarily in MS Excel template. CEPALCO shall enhance its financial system to cater and automate the BSUP-ACAM requirements within one year from approval by the Commission.

- f. Code of Conduct for Competitive Retail Market Participants

CEPALCO commits to develop a plan to comply with Code of Conduct for Competitive Retail Market Participants upon implementation of RCOA in Mindanao. It will ensure that this will be strictly followed and observed by the Company's officers and employees.

- g. Accounting Cost Allocation Manual

CEPALCO's Accounting Separation Statement shall take off from the General- Purpose Trial Balance Accounts and Sub-account. Each account is fairly allocated and or identified to the various business segments using a "BSG Code" that is assigned to each trial balance account. The BSG Code is a combination of two sets of code composed of 7 digits each namely the "Allocation Code" and the Accounting Separation Statement (ASS Code). The "Allocation Code" will facilitate the segregation of the trial balance account into the different business segment using its corresponding allocation factor. The Accounting Statement Separation ("ASS") code corresponds to each account in the Accounting Separation Statement. It will facilitate conversion of the allocated trial balance amount into the different Accounting Separation Statement Accounts.

6. In support of this Application, Applicant most respectfully submits to the Honorable Commission for approval, the following document:

BSUP – Account and Cost Allocation Manual, attached and Annex “A”.

PRAYER

WHEREFORE, it is most respectfully prayed of this Honorable Commission that after due proceedings, CEPALCO’s Business Separation Unbundling Plan and Accounting and Cost Allocation Manual be approved accordingly.

Other just and equitable relief are also prayed for.

Finding the said *Application* to be sufficient in form with the required fees having been paid, the Commission hereby sets the same for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on the following dates and online platform for the conduct thereof pursuant to Resolution No. 09, Series of 2020² dated 24 September 2020 and Resolution No. 01, Series of 2021, dated 17 December 2020 (ERC Revised Rules of Practice and Procedure)³:

Date	Platform	Activity
29 October 2021 (Friday) at nine o’clock in the morning (9:00 A.M.)	Microsoft Teams	Determination of compliance with jurisdictional requirements and expository presentation
05 November 2021 (Friday) at nine o’clock in the morning (9:00 A.M.)	Microsoft Teams	Pre-Trial Conference and Presentation of Evidence

RELATIVE THERETO, CEPALCO is hereby directed to:

- 1) Cause the publication of the attached *Notice of Virtual Hearing* once (1x) in a newspaper of nationwide circulation in the Philippines at its own expense, the date of publication to be made not later than ten (10) days before the date of the scheduled initial hearing;

² Entitled: “A Resolution Adopting the Guidelines Governing Electronic Applications, Filings and Virtual Hearings Before the Energy Regulatory Commission”.

³ A Resolution Adopting the Revised Rules of Practice and Procedure of the Energy Regulatory Commission.

- 2) Furnish with copies of this *Order* and the attached *Notice of Virtual Hearing* the Offices of Mayor and the Local Government Unit (LGU) legislative body within CEPALCO's franchise area for the appropriate posting thereof on their respective bulletin boards;
- 3) Inform the consumers within CEPALCO's franchise area, by any other means available and appropriate, of the filing of the *Application*, its reasons therefor, and of the scheduled virtual hearings thereon;
- 4) Furnish with copies of this *Order* and the attached *Notice of Virtual 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 and attend the scheduled hearings; and
- 5) Furnish with copies of the *Application* and its attachments all those making requests therefor, subject to the resolution of the prayer for confidential treatment of information, if any, and reimbursement of reasonable photocopying costs.⁴

Within five (5) calendar days prior to the date of the virtual hearings, CEPALCO must submit to the Commission via electronic mail (e-mail) at docket@erc.ph, copy furnish the Legal Service through legal@erc.ph, the scanned copies of 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 Virtual Hearing* consisting of affidavit of the Editor or Business Managers of the newspaper where the said *Notice of Virtual 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 Virtual Hearing* consisting of certifications issued to that effect, signed by the aforementioned Mayor and LGU legislative body or their

⁴ For the e-mail address of the applicants, please see page 11.

duly authorized representatives, bearing the seals of their offices;

- 3) The evidence of other means employed by CEPALCO to inform the consumers within its franchise area of the filing of the *Application*, its reasons therefor, and of the scheduled hearings thereon;
- 4) The evidence of receipt of copies of this *Order* and the attached *Notice of Virtual Hearing* by the OSG, the 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.

Moreover, CEPALCO is hereby required to post on its bulletin boards, the scanned copies of the foregoing jurisdictional requirements, together with the newspaper publication and certifications issued by the concerned Offices of the Governor, Mayors and Local Legislative Bodies, and to submit proof of its posting thereof.

CEPALCO and all interested parties are also required to submit via e-mail at doCKET@erc.ph, copy furnish the Legal Service through legal@erc.ph, at least five (5) calendar days before the date of the scheduled virtual 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 therefor; and
- 4) The number and names of the witnesses, with their written testimonies in a Judicial Affidavit form attached to the Pre-trial Brief.

CEPALCO must ensure that all the documents or exhibits proposed to be presented have already been duly submitted to the

Commission at least five (5) calendar days before the date of the scheduled initial virtual hearing and Pre-trial Conference pursuant to the preceding paragraph.

Failure of CEPALCO 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.

CEPALCO 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, the nature of the *Application* with relevant information and pertinent details substantiating the reasons and justifications being cited in support thereof.

CEPALCO is hereby directed to file a copy of its Expository Presentation via e-mail at doCKET@erc.ph, copy furnish the Legal Service through legal@erc.ph, at least five (5) calendar days prior to the scheduled virtual hearing. CEPALCO shall also be required, upon the request of any stakeholder, to provide an advance copy of its expository presentation, at least five (5) calendar days prior to the scheduled virtual hearing.

Any interested stakeholder may submit its comments and/or clarifications at least one (1) calendar day prior to the scheduled virtual hearing, via e-mail at doCKET@erc.ph, copy furnish the Legal Service through legal@erc.ph. The Commission shall give priority to the stakeholders who have duly submitted their respective comments and/or clarifications, to discuss the same and propound questions during the course of the expository presentation.

CEPALCO is hereby directed to submit, either through personal service, registered or ordinary mail/private courier, one (1) set of the original or certified true hard/printed copy/ies of its Jurisdictional Compliance, Expository Presentation, Pre-trial Brief, and Judicial Affidavit/s of witness/es, within five (5) working days from the date that the same were electronically submitted, as reflected in the acknowledgment receipt e-mail sent by the Commission. Similarly, all interested parties who filed their Petition for Intervention or Opposition are required to submit the hard/printed copy thereof within the same period through any of the available modes of service.

Finally, CEPALCO, including its authorized representative/s and witness/es, are hereby directed to provide the Commission, thru legal.virtualhearings@erc.ph, with their respective e-mail addresses upon receipt of this *Order*. The Commission will send the access link/s to the aforementioned hearing platform within five (5) working days prior to the scheduled hearing.

SO ORDERED.

Pasig City, 24 September 2021.

FOR AND BY AUTHORITY
OF THE COMMISSION:




AGNES VST DEVANADERA
Chairperson and CEO

ERC

Office of the Chairperson



AVSTD-2021-10-510-0010


LS: SQD/LSP/MCCG

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Copy Furnished:

1. Attys. Isidro O. Baculio Jr., Maynard Eugenio C. Ylagan, and Junalliez Yreka N. Quinlog
Counsels for CEPALCO
CEPALCO Administration Building,
Fr. Masterson Avenue, Upper Balulang
Cagayan de Oro City
Email: mecylagan@cepalco.com.ph
2. Cagayan Electric Power and Light Company Inc. (CEPALCO)
Applicant
CEPALCO Administration Building,
Fr. Masterson Avenue, Upper Balulang
Cagayan de Oro City
3. Office of the Governor
Province of Misamis Oriental
4. Office of the LGU legislative body
Province of Misamis Oriental
5. Office of the City Mayor
Cagayan de Oro City
6. Office of the LGU legislative body
Cagayan de Oro City
7. Office of the Municipal Mayor
Tagoloan, Misamis Oriental
8. Office of the LGU legislative body
Tagoloan, Misamis Oriental
9. Office of the Municipal Mayor
Villanueva, Misamis Oriental
10. Office of the LGU legislative body
Villanueva, Misamis Oriental
11. Office of the Municipal Mayor
Jasaan, Misamis Oriental
12. Office of the LGU legislative body
Jasaan, Misamis Oriental
13. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village, Makati City
docket@osg.gov.ph
14. Commission on Audit
Commonwealth Avenue, Quezon City
citizensdesk@coa.gov.ph
15. Senate Committee on Energy
GSIS Bldg. Roxas Blvd., Pasay City
email@wingatchalian.com
16. House Committee on Energy
Batasan Hills, Quezon City
committees@house.gov.ph
17. Regulatory Operations Service
Energy Regulatory Commission
17th Floor Pacific Center Building, San Miguel Avenue, Pasig City