

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



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

ERC CASE NO. 2016 -026 MC

**DINAGAT ISLAND
ELECTRIC COOPERATIVE,
INC. (DIELCO),**

Applicant.

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DOCKETED
Date: MAR 01 2017
By: [Signature]

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 16 September 2016, Dinagat Island Electric Cooperative, Inc. (DIELCO) filed an *Application* dated 08 September 2016 seeking the Commission's approval of its Business Separation Unbundling Plan (BSUP).

DIELCO alleged the following in its *Application*:

Applicant, DINAGAT ISLAND ELECTRIC COOPERATIVE, INC. (DIELCO), by counsel and to this Honorable Commission, most respectfully alleges that:

THE APPLICANT

1. DIELCO is a non-stock, non-profit electric cooperative duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office at Justiniana, San Jose, Province of Dinagat Islands;
2. It holds an exclusive franchise from the National Electrification Commission to operate an electric light and power distribution service in the municipalities of San Jose,

Basilisa, Libjo, Tubajon, Loreto, Dinagat and Cagdianao, all in the Province of Dinagat Islands;

LEGAL BASIS FOR THE APPLICATION

3. Section 36 of Republic Act No. 9136 otherwise known as the Electric Power Industry Reform Act of 2001 or "EPIRA", provides in part that "*Any electric power industry 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;*"
4. Pursuant to the said mandate 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 "*Business Separation Guidelines, as Amended*," as well as Resolution No. 07, Series of 2012, Adopting the Accounting and Cost Allocation Manual (ACAM) for Electric Cooperatives;
5. Pursuant to and in compliance with the requirements of the foregoing law, rules and resolutions, applicant is submitting herewith for the Honorable Commission's evaluation and approval, its proposed BUSINESS SEPARATION AND UNBUNDLING PLAN (BSUP) for the business separation and structural and functional unbundling of its business activities, with the end in view of separating its distribution activities into appropriate business segments and to have a clear separation of operations and accounts between its regulated and non-regulated activities;

THE PROPOSED BUSINESS SEPARATION AND UNBUNDLING PLAN

6. Applicant's proposed BSUP is divided into six (6) sections, to wit:

SECTION I - DETAILS OF CURRENT STRUCTURE

a) CORPORATE PROFILE

Dinagat Island Electric Cooperative, Inc. (DIELCO) is a non-stock, non-profit distribution utility, organized on August 29, 1990 and registered with the National Electrification Administration (NEA) pursuant to the provisions of Presidential Decree no. 269, as amended by P.D. 1645. Its franchise covers the whole island of Dinagat which is situated at the Northeastern Mindanao, composed of seven (7) municipalities and one hundred (100) barangays with a total land area of 1,036.34 square kilometers and a population of 127,152 as of 2015.

DIELCO's franchise area is divided into five (5) districts with potential household consumers of 24,000. As of December

2015, the actual number of households billed is 21,369 wherein 94% are residential consumers and 47% of the latter are lifeline discount recipients.

As of December 2015, DIELCO has seventy-four (74) approved plantilla positions and only forty-four (44) plantilla positions were filled up. In the filled up positions, twelve (12) are on probationary status. Its security service is outsourced from a local agency.

b) CORPORATE STRUCTURE

The organizational structure of DIELCO was approved by NEA on November 22, 2002. Its present structure consists of the Member-Consumers at the top, then the Board of Directors being elected by the members and the General Manager as ex-officio member of the Board. The top management is headed by the General Manager consisting of four (4) departments, namely: the Office of the General Manager (OGM), Institutional Services Department (ISD), Technical Services Department (TSD), and Finance Services Department (FSD).

c) DESCRIPTION OF FUNCTIONS

1. General Membership

General Members have the right to elect their Director in their respective districts. Members act as the highest governing body of the cooperative during General Assembly. The General Members approve any amendments of the cooperative's Articles of Incorporation and By-Laws. Members likewise approve the minutes of the previous year's Annual General Membership Meeting.

2. Board of Directors

The Board of Directors is the policy making body, has the right to select a competent General Manager, consultants or legal counsel of the cooperative; sees to it that laws, policies, rules and regulations are complied with and implemented by the management. It reviews and approves board resolutions for cooperative's plans and programs, annual budget and other recommendations of the General Manager.

3. General Manager

The General Manager manages the general operation of the cooperative to provide efficient and reliable service for the welfare of the member-consumers. He implements approved policies, plans, programs, corporate values and culture; hires and fires employees; implements trainings to develop and improve the skills and knowledge of the employees; recommends approval to the Board and NEA on employees staffing pattern, fair salary administration and job description; gives updates to the Board of Directors regarding current

issues and concerns of the cooperative; delegates job function to the department managers and promote team building; and recommends the Board's approval of annual work plans, annual cash operating budget and other long-range forecasting.

4. Institutional Services Department (ISD)

The ISD is responsible in the following aspects: maintaining member-consumer's records; keeping and maintaining personnel's 201 files; human resource development of employees; conducting information dissemination to all member-consumers and promote a continuing membership education through conducting pre-membership seminars; giving immediate actions to consumer complaints, requests, and answers consumer inquiries; the conduct of district elections; the conduct and administering annual general membership meeting; making plans and programs relating to institutional activities of the cooperative; and the conduct of barangay electricians' trainings including supervision of accredited barangay electricians to assist member-consumers in the house wiring installations.

5. Finance Services Department (FSD)

The FSD assists the General Manager in the budgetary controls and financial forecasting. The department is responsible on the following duties: follow strict compliance and monitoring of all NEA memoranda regarding employees and officers' allowances and benefits; maintain an internal accounting control system in accordance with the financial records and accounting reports are properly kept and reported on time, payments and disbursements are properly handled, cash and other cash items are properly and safely kept and other financial functions; develop and implement policies relating to financial programs, plans and actions in short and in long-range financial forecasting.

6. Technical Services Department (TSD)

The TSD is responsible in designing plans and programs for the construction, rehabilitation, and line expansions, design plans and programs on how to improve and maintain the cooperative's operation of distribution system and ensures that electricity is delivered to end users with maximum efficiency, delivered safely and with reliable power service; multi-tasking functions, TSD people are responsible to perform job relating to technical, financial such as MRBC functions and ISD such as service dropping and other related works; they are responsible in maintaining and ensuring the continuous reliable performance of the technical equipments, tools and vehicles which are fundamentals in maintaining reliable service; recommend necessity of training programs for technical personnel; and responsible in designing construction and maintenance budget.

d) DESCRIPTION OF CURRENT PROCESS

1. Service Connection

Applicant for new service connection is required to attend the Pre-Membership Seminar prior to filing an application so that he will be guided of the requirements. The Consumer Service accepts application, checks requirements and computes required fees. If requirements are complete, fees will be paid to the cashier; if not, it will be returned to the applicant. The preparation of turn-on order and DIELCO membership I.D. card will follow. The ISD Manager will check the turn-on order which must be approved by the General Manager. The requisition of kWh meter, service drop wire and schedule of service dropping for execution by lineman and issuance of membership I.D. card will be the next process.

2. Meter Reading Process

The Meter Reading, Billing and Collection Head is responsible for administering the timely and accurate reading of all consumers. Meter reading is done manually and reading starts on the 25th day of each month and ends on the 30th of every month. MRBC Head prepares the reading schedule while the Billing Clerk/Encoder prepares the reading sheets. The Meter Reader/Collector reads the meter of every consumer and fill-in the meter reading sheets and submits the same to the MRBC Head.

3. Billing Process

The cooperative uses Flexi Billing software in billing consumer electricity consumption. The billing activities start every 26th day and end on the 31st of the month.

4. Collection Process

The first collection is done starting on the day the receipt is delivered. Consumers are given five (5) days from receipt of the bill to pay the same. The cooperative's employees are the authorized collectors.

5. Collection- Remittance- Deposit Process

Collection is deposited daily in the cooperative's authorized depository banks which are Land Bank of the Philippines (LBP)-Dinagat Branch and twice a month in the Development Bank of the Philippines (DBP) in Surigao City.

6. Disconnection Process

When bill becomes due after five (5) days from receipt, the meter reader/collector will visit the customer (second visit). If consumer pays, the collector accepts the payment, if not a 48-hour notice of disconnection will be served on the consumer.

7. Reconnection Process

Requirement for reconnection is the payment of delinquent bill including reconnection fee. Payment of bill deposit is also required of consumers who have not yet paid the same. For consumers whose actual power bill exceed their bill deposit, additional bill deposit will be required. Electric service will be reconnected within twenty-four (24) hours from date of payment.

8. Disconnected Meter Returning Process

Delinquent kWh meter is pulled out if not reactivated after forty-five (45) days from date of disconnection. For those requesting voluntary disconnection, the kWh meter is pulled out if not reactivated within fifteen (15) days from date the disconnection took place.

9. Meter Testing and Sealing Process

All kWh meters received from suppliers are already sealed by the Energy Regulatory Commission. DIELCO's Meter Calibrator will only check its 100% accuracy. If accuracy is over or under 100%, it will be returned to the meter supplier for replacement.

The calibrating machine is being calibrated on a semi-annual basis at the Energy Regulatory Commission Field Office in Davao City.

10. Meter Rehabilitation Process

DIELCO was granted by the ERC an exemption from maintaining and operating a Meter Shop under Certificate of Exemption No. 10-002 E. It is therefore authorized to have its electric meters calibrated and tested by any Meter Shop accredited by the ERC.

All kWh meters found to have inaccurate registration will be returned to the meter supplier for replacement.

11. Meter Issuance Process

The issuance of kWh meter will require an approved Requisition Voucher (RV) and Material Charge Ticket (MCT). The name of the consumer and the meter serial number are indicated in the Requisition Voucher for control purposes. Payment will be required in cases caused by non-fortuitous events.

12. Acquisition Process of Capital Expenditures (CAPEX)

Request for materials/supplies is done by filling up a Requisition to Purchase form. Upon approval of the request,

procurement process will follow based on the cooperative's policy depending on the amount involved, as follows:

- Below PhP500,000.00 - canvass only
- PhP500,000.00 and above - public bidding is required

Requisition of line materials, equipment and other accessories in the TSD is requested by the Department Manager. All other needed materials and office supplies is requested by the Warehouseman and General Services Head. Requisition to purchase is recommended by the FSD Manager prior to GM's Approval.

The Warehouseman and General Services Head are in charge in the canvass if the amount involved is below PhP500,000.00. In case the amount involved is PhP500,000.00 and above, the Bidding and Awards Committee prepares a schedule for the conduct of bidding.

The summary of canvass and bidding is submitted to the General Manager for approval and the subsequent preparation of Purchase Order by the Warehousing and General Services Head. All purchase orders are approved by the General Manager. The FSD processes the voucher for payment to supplier, depending on the term and condition in the purchase order.

13. Receiving Process

All purchased materials and supplies should be received in the warehouse using Receiving Report form. It should be supported by Official Receipts and other documents such as Canvass Sheets, Summary of Canvass, Purchase Order, Request to Purchase, etc.

14. Material Issuance Process

All material issuances should be supported with Material Charge Ticket (MCT) or Other Material Charge Ticket (OMCT), as the case maybe. Requisitioner prepares the Requisition Voucher to be recommended by the Department Manager and approved by the General Manager.

15. Office Supplies Issuance Process

The issuance of office supplies uses a separate form called the Office Supplies Requisition and Issue Slip (OSRIS) which requires approval before issuance. The requisitioner prepares the OSRIS countersigned by the Department Manager and approved by the General Manager. After the OSRIS is completely signed, the warehouseman issues the office supplies required.

16. Inventory Monitoring and Issuance Process

Materials and supplies should be monitored using Bin Cards. The Warehouseman and General Services Head submit a report to the General Manager a monthly report of fuel consumption. The minimum stock balance of diesel and gasoline is 90 liters.

17. Customer Assistance- Inquiries, Complaints, Concerns

Meter Problem Complaints

An Applicant who wants to consult meter problem complaints may inquire with the Consumer Welfare Desk Personnel for a Service Memorandum. Upon approval of the General Manager, the meter will be calibrated. If there is no damage, the consumer is be promptly informed. However if there is a problem, the billing clerk prepares a Meter Change Order that will be executed by the lineman.

Relocation (kWh Meter and Service Drop Wire)

A Relocation Order shall be properly executed before the Consumer Complaint and Action Officer followed by payment with the cashier. After the order has been approved by the General Manager, the same is executed by the lineman.

Reinstallation/Replacement of Service Drop Wire

In cases involving reinstallation or replacement of service drop wire, a Service Memorandum shall be required from the Consumer Complaint and Action Officer. After payment and approval by the General Manager, the same is executed by the lineman.

18. Trouble Response Process

This applies to troubles in the distribution system wherein the Security Guard is authorized to directly coordinate with the assigned line maintenance personnel for the immediate restoration of line fault. The Security Guard will report the same to the Consumer Complaint & Action Officer for record purposes. If it is a major trouble, it has to be coordinated with the Construction, Operation and Maintenance Supervisor.

19. Planning and Engineering Design

Planning and Engineering Design must be done to ensure sufficient capacity of the Distribution Facilities of the cooperative to meet the growing demand of customers. Distribution transformers must not be overloaded. DIELCO uses Synergiee and Power World softwares to simulate and analyze the impact of the design/project to be implemented.

SECTION II - DETAILS OF BUSINESS SEGMENTS

DIELCO's business segment is structured into a.) Distribution Services (DS) b.) Distribution Connection Services (DCS) c.) Related Retail Services (RRS) and d.) Regulated Business Services (RBS).

The cooperative as distribution utility shall use all its utility assets and manpower for the different business segments in which it is currently engaged in, which include the operation and maintenance of line structures, transformers and other facilities employed from primary source of power supply and distributed until it reaches end users.

DIELCO's distribution line rating is 13.2 KV for the whole franchise distribution areas such as the municipalities of San Jose, Dinagat, Cagdianao, Basilisa, Libjo, Tubajon and Loreto.

1. DISTRIBUTION SERVICES BUSINESS SEGMENT

This segment has the following distribution services:

1. Conveyance of electricity through a Distribution System and the control and monitoring of electricity as it is conveyed through the Distribution System (including any services that support such conveyance, control or monitoring or the safe operation of the Distribution System).
2. Provision of Ancillary Services (if any) that are provided using assets which form part a Distribution System (an example of such Ancillary Services is services provided by a series reactor or a static var compensator);
3. Planning, maintenance, augmentation and operation of the Distribution System.
4. Provision, installation, commissioning, testing, repair, maintenance and reading of WESM-related meters that are not used to measure the delivery of electricity to end-users or other customers; and
5. Billing, collection and the provision of customer services that are directly related to the delivery of electricity to end-users or to that relate to the connection of such persons to a Distribution System (whether such services are provided to those end-users or to Suppliers or to any other person).

The assets included in this business segment are all the facilities and assets used to provide the distribution services of this particular business segment.

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 operational activities of this particular business segment.

Revenues include all revenues derived from the provision of the distribution services, including revenues derived from the sale of related facilities, plants or assets.

Costs include all costs associated with management, maintenance and operation of Distribution System facilities and other assets in order to provide the distribution services of this particular business segment.

2. DISTRIBUTION CONNECTION SERVICES BUSINESS SEGMENT

This segment has the following distribution connection services:

2.1 Provision of capability at each Connection Point to a Distribution System to deliver electricity or to take electricity from the Connection Point and the conveyance of electricity:

2.1.1 from the facilities of persons which are directly connected to the Distribution System

2.1.2 from the Connection Point to the facilities of persons which are directly connected to the Distribution System;

2.2 Planning, installation, maintenance, augmentation, testing and operation of Distribution Connection Assets; and

2.3 Provision of other services that support any of the above services.

The assets included in the Business Segment are all the facilities and assets used to provide the distribution connection services of this particular business segment.

The liabilities included in this Business Segment are all the liabilities incurred directly or a relevant share of the shared liabilities incurred to provide the Services or undertake the activities of this particular business segment. Revenues include all revenues associated with providing the distribution connection services, including the corresponding depreciation of the Distribution Connection Assets.

3. REGULATED RETAIL SERVICES BUSINESS SEGMENT

This segment comprises the provision of regulated retail services, namely; services pertaining to the sale of electricity to end-users who are included in the Captive Market, and includes:

- 3.1 Billing, collection and the provision of customer services to such end-users in their capacity as electricity consumers;
- 3.2 Energy trading (including the purchase of electricity and hedging activities) undertaken in connection with the sale of electricity to end-users who are included in the Captive Market; and
- 3.3 Sale of electricity to end-users who are included on the Captive Market.

Regulated retail services also comprise the provision, installation, commissioning, testing, repair, maintenance and reading of meters that are used to measure the delivery of electricity to end-users who are included on the Captive Market.

The assets included in this Business Segment are all the assets used directly, or a relevant share of the shared assets used to provide the regulated retail services.

The liabilities included in this Business Segment are all the liabilities directly incurred or a relevant share of the shared liabilities incurred to provide the services or undertake the operational activities of this particular business segment.

Revenues include all revenues associated with providing the regulated retail services.

Costs include all costs associated with the provision of the regulated retail services, including the relevant share of the operating and maintenance costs and the depreciation costs of the assets used to provide the services or undertake the operational activities of this particular business segment.

4. RELATED BUSINESSES

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:

1. Electricity related services such as the construction and maintenance of customer installations and
2. Non-electricity related services such as telecommunication business utilizing rental of poles and utilization of DIELCO Multi-Purpose Building for rental by outside parties and activities other than the cooperative's affair.

The assets included in this Business Segment are all the assets used directly or a relevant share of the shared assets used to provide the services or undertake the activities of this particular business segment.

The liabilities included in this Business Segment are all the liabilities incurred directly or a relevant share of the shared liabilities incurred to provide the services or undertake the operational activities of this particular business segment.

Revenues include all revenues generated from the provision of the services or the undertaking of the activities for this particular business segment. Costs include all the relevant share of operating and maintenance costs and depreciation costs apportioned in accordance with the principles set out in this Manual.

SEGREGATION OF EMPLOYEES. DIELCO shall maintain its existing number of approved plantilla/positions in its operation under the plan and the employees shall be assigned accordingly to the different business segments that shall be adapted by the cooperative.

ASSETS AND FACILITIES UTILIZED IN THE BUSINESS SEGMENT. DIELCO shall adopt the asset descriptions in the approve ACAM for ECs.

SECTION III - ACCOUNTING SEPARATION

DIELCO undertakes to adopt the ERC-approved Accounting and Cost Allocation Manual (ACAM) in its operation. It shall likewise adopt certain policies and principles to be able to achieve an effective accounting separation, as follows:

- a. Principles to Achieve Accounting Separation
- b. Allocation Principles
- c. Chart of Accounts
- d. Basic Accounting Principles

In addition, the following policies shall be observed:

1. Procurement of Capital Expenditures (CAPEX) and Non-Capital Expenditures (Non-CAPEX) is based on the following procurement policy of the cooperative:
 - a. Below Php500,000.00 - canvass only
 - b. Php500,000.00 and above -public bidding is required
2. Depreciation policy is based on the NEA memorandum on Depreciation of Fixed Assets.

SECTION IV - DESCRIPTION OF SEPARATION

DIELCO shall maintain its existing organizational structure. To respond to the business segments of the cooperative, personnel shall be assigned to the different business segments, however in the event a contestable consumer will arise, pertinent business processes and transactions shall be handled by the General Manager together with the Department Manager.

SECTION V - MILESTONES AND HIGHLIGHTS

Details of DIELCO's milestones and highlights are documented in the BSUP.

SECTION VI - PROGRAM 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), DIELCO shall comply with ERC Resolution No. 31, Series of 2006, the Code of Conduct for Competitive Retail Market Participants (referred hereafter as "Code")

In case the threshold level will be decrease in the future and it becomes necessary to create a separate business segment like a local Retail Electricity Supplier (RES), the pertinent Department Manager is designated to do the job.

Copy the proposed BSUP is being submitted herewith and made integral part thereof as Annex "A".

7. Further, DIELCO prepared an Accounting Separation Statements in accordance with the Accounting and Cost Allocation Manual (ACAM) for Electric Cooperatives, based on its Audited Financial Statements for the Year 2015 for the Honorable Commission's consideration, being submitted herewith together with the cooperative's 2015 Audited Financial Statements, attached hereto and made integral parts hereof as Annexes "B" and "C", respectively.
8. Lastly, DIELCO is likewise submitting herewith for the Honorable Commission's consideration and approval, a set of Confidentiality Policies and Guidance to be observed by concerned personnel of the cooperative, together with a Board Resolution adopting certain sets of obligations imposed upon Distribution Utilities, among others, as provided under Article V of the Business Separation Guidelines (BSG), attached hereto and made integral parts hereof as Annexes "D" and "E," respectively.

PRAYER

WHEREFORE, premises considered, it is respectfully prayed of this Honorable Commission that after due notice and hearing, DIELCO's proposed BUSINESS SEPARATION AND UNBUNDLING PLAN (BSUP) be approved accordingly.

Other reliefs, just and equitable under the premises, are likewise prayed for.

The Commission has set the *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **05 April 2017 at ten o'clock in the morning (10:00 A.M.), at 15th Floor, ERC Hearing Room, Pacific Center Building, San Miguel Ave., Pasig City.**

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene, at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

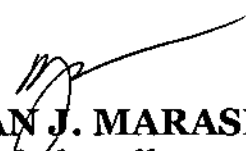
- 1) The petitioner's name and address;
- 2) The nature of petitioner's interest in the subject matter of the proceeding and the way and manner in which such interest is affected by the issues involved in the proceeding; and
- 3) A statement of the relief desired.


All other persons who may want their views known to the Commission with respect to the subject matter of the case may file their Opposition or Comment thereon at any stage of the proceeding before Applicants rest their case, subject to the requirements under Rule 9 of the 2006 Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name and address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon:

All such persons who wish to have a copy of the *Application* may request from Applicant that they be furnished with the same, prior to the date of the initial hearing. Applicant is hereby directed to furnish all those making such request with copies of the *Application* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Application* and other pertinent records filed with the Commission during the standard office hours.

WITNESS, the Honorable Chairman **JOSE VICENTE B. SALAZAR**, and the Honorable Commissioners **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 16th day of February 2017 at Pasig City.


ATTY. NATHAN J. MARASIGAN
Chief of Staff
Office of the Chairman and CEO


LS: JGM/ARC/PAR/APV