

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



IN THE MATTER OF THE APPLICATION FOR APPROVAL OF OVER/UNDER RECOVERIES IN THE IMPLEMENTATION OF AUTOMATIC COST ADJUSTMENTS AND TRUE-UP MECHANISMS AND CORRESPONDING CONFIRMATION PROCESS PURSUANT TO RESOLUTION NO. 16, SERIES OF 2009, AS AMENDED BY RESOLUTION NO. 21, SERIES OF 2010,

ERC CASE NO. 2012- 012 CF

ILOILO III ELECTRIC COOPERATIVE, INC. (ILECO III),

Applicant.

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IN THE MATTER OF THE APPLICATION FOR CONFIRMATION AND APPROVAL OF CALCULATIONS OF OVER/UNDER RECOVERIES IN THE IMPLEMENTATION OF AUTOMATIC COST ADJUSTMENTS AND TRUE-UP MECHANISMS FOR THE PERIOD 2012 TO 2014, PURSUANT TO ERC RESOLUTION NO. 16, SERIES OF 2009 AS AMENDED BY

DOCKETED
Date: **NOV 07 2017**
By: _____

RESOLUTION NO. 21,
SERIES OF 2010 AND ERC
RESOLUTION 23, SERIES
OF 2010,

ERC CASE NO. 2015-018 CF

ILOILO III ELECTRIC
COOPERATIVE, INC.
(ILECO III),
Applicant.

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DECISION

Before the Commission for resolution are the following:

- a) The *Motion for Reconsideration* of the Decision dated 10 November 2014 under ERC Case No. 2012-012 CF filed by Iloilo III Electric Cooperative, Inc. (ILECO III) on 06 January 2015; and
- b) The *Application* dated 20 March 2015 (Application) filed on 30 March 2015 by ILECO III for confirmation and approval of its calculations of over or under recoveries in the implementation of Automatic Cost Adjustments and True Up Mechanisms for the period 2012 to 2014.

FACTUAL ANTECEDENTS

On 10 November 2014, the Commission issued its Decision in ERC Case No. 2012-012 CF that confirmed ILECO III's first adjustment mechanism for the period March 2004 to December 2011. The dispositive portion of the Decision reads:

WHEREFORE, the foregoing premises considered, the application filed by ILECO III for approval of its (over)/under recoveries based on the formulae on the various automatic cost adjustments and true-up mechanisms and corresponding confirmation process, pursuant to ERC Resolution No. 16, Series of 2009, as amended by Resolution No.

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21, Series of 2010, is hereby **APPROVED with MODIFICATION.**

Accordingly, **ILECO III** is hereby directed to **REFUND** the following amounts:

- a. **GENERATION** over recoveries of: 1) PhP6,291,923.35, equivalent to PhPo.0285/kWh for **Mainland**; and 2) PhP127,657.08, equivalent to PhPo.1100/kWh for **SPUG-Gigantes**;
- b. **TRANSMISSION** over recovery of PhP69,538,932.28, equivalent to the following rates per customer class:

Customer Class	PhP/kWh	PhP/kWh
Residential	(0.3785)	-
Low Voltage	(0.1656)	-
Higher Voltage	-	(41.4911)

- c. **SYSTEM LOSS** over recovery of PhP247,078.08, equivalent to PhPo.2129/kWh for **SPUG-Gigantes**.

On the other hand, **ILECO III** is hereby authorized to **COLLECT** from its customers the following amounts:

- a. **SYSTEM LOSS** under recovery of PhP13,394,979.19, equivalent to PhPo.0310/kWh for **Mainland**;
- b. **LIFELINE SUSIDY** under recovery of PhP3,727,931.35, equivalent to PhPo.0091/kWh;
- c. **INTER-CLASS CROSS SUBSIDY** under recovery of PhP3,999,255.48, equivalent to PhPo.1230/kWh; and
- d. **REINSTATED PROMPT PAYMENT DISCOUNT (RPPD)** under recovery of PhP972,033.20, equivalent to the following rates per customer class:

Customer Class	PhP/kWh	PhP/Cust./Mo.
Residential	0.0088	-
Low Voltage	-	0.1923
Higher Voltage	-	20.6403

In order to afford **ILECO III** ample time to modify its billing system software, the refund/collect

of the foregoing confirmed over/under recoveries shall be implemented starting on the third billing cycle from receipt of this Decision, until such time that the full amount shall have been fully refunded/collected.

In connection therewith, ILECO III is hereby directed to:

- a. **SUBMIT**, within ten (10) days from its initial implementation, a sworn statement indicating its compliance with the aforesaid directive;
- b. **REFLECT** the net (over)/under recoveries in the monthly computations of GR, TR, SLR, and LSR as "OGA" for Generation, "OTCA" for Transmission, "OSLA" for System Loss, and "OLRA" for Lifeline Subsidy;
- c. **REFLECT** the under recoveries for Inter-Class Cross Subsidy and Reinstated Prompt Payment Discount (PPD) as separate line items in the bill using the phrases "ICCS Adj." and "PPD Adj.", respectively; and
- d. **ACCOMPLISH** and **SUBMIT** a report in accordance with the attached prescribed format, on or before the 30th day of the following month, together with the monthly reportorial requirement, and every month thereafter until the amount shall have been fully refunded/recovered.

SO ORDERED.

On 22 December 2014, ILECO III through its counsel received a copy of the Decision. Subsequently, on 06 January 2015, ILECO III filed the instant *Motion for Reconsideration*, which is within the fifteen (15) day prescribed period provided under Rule 23, Section 1 of the Commission's Rules of Practice and Procedure, to wit:

"Section 1. Filing of Motion for Reconsideration. - A party adversely affected by a final order, resolution, or decision of the Commission rendered in an adjudicative proceeding may, **within fifteen (15) days from receipt of a copy thereof, file a motion for reconsideration.** In its motion, the movant may also request for reopening of the

proceeding for the purpose of taking additional evidence in accordance with Section 17 of Rule 18. No more than one motion for reconsideration by each party shall be entertained.”

In its *Motion for Reconsideration*, ILECO III sought the Commission’s reconsideration on the following:

1. Re-computation or re-evaluation of the over or under recoveries on the allowable cost on Generation (Mainland), Transmission, and System Loss (Mainland);
2. Rectification of the discrepancy between the discussion on the body of the Decision dated 10 November 2014 and the dispositive portion thereof on the matter of the Lifeline Subsidy;
3. For any final findings of over recoveries, the extension of the period of refund in such a way that the cooperative would still be able to viably maintain and pursue operations; and
4. Deferment of the implementation of refund until such time that the Honorable Commission renders a final Decision on its rate application docketed as ERC Case No. 2013-130 RC¹.

Meanwhile, on 30 March 2015, ILECO III filed the instant *Application* for the (over)/under-recoveries for the period January 2012 to December 2014.

ILECO III alleged the following in its *Application*:

1. ILECO III 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 Brgy. Preciosa, Sara, Iloilo;
2. ILECO III holds an exclusive franchise issued by the National Electrification Commission (NEC) to operate an electric light and power distribution service in certain

¹In the Matter of the Application for Approval of Rate Adjustment in Accordance with R.A. 9136, with Prayer for Provisional Authority, Iloilo III Electric Cooperative, Inc. (ILECO III)- Applicant.

municipalities in the Province of Iloilo namely: Ajuy, Anilao, Balasan, Banate, Barotac Viejo, Batad, Carles, Concepcion, Estancia, Lemery, San Dionisio and Sara;

3. The Commission's Resolution No. 16, Series of 2009, as amended by Resolution No. 21, Series of 2010 established the procedure for the automatic recovery or refund of pass through costs and the confirmation process that would govern the automatic cost adjustment and true-up mechanisms approved by the Commission, with the objective of ensuring appropriate recovery of the pass through costs in an efficient manner and to put in place a fair and transparent process for the confirmation of the automatic cost adjustments implemented by Distribution Utilities and the true-up of other pass through charges involving Generation Rate, System Loss Rate, Transmission Rate, System Loss Rate, Lifeline Rate Recovery, Inter-Class Cross-Subsidy Removal or Treatment of Prompt Payment Discount, as the case may be;
4. ILECO III adopted the rules implementing the Senior Citizen Discounts under Resolution No. 23, Series 2010;
5. The foregoing resolution further requires the Distribution Utilities (DUs) to file their respective consolidated applications once every three (3) years. Hence, the filing of ILECO III's application for the period January 2012 to December 2014;
6. ILECO III applied the formulae provided under Resolution No. 16, Series of 2009, as amended by Resolution No. 21, Series of 2010, and has determined that the over recoveries and under recoveries incurred in its implementation of the foregoing automatic cost adjustments and true-up mechanisms for the period January 2012 to December 2014;
7. The results of its calculations are presented hereunder as follows:

	Allowable Cost (PhP)	Actual Revenue (PhP)	(Over)/Under Recovery (PhP)
Generation- Main	899,807,949.18	895,167,390.86	4,640,558.32
Generation-SPUG	3,115,535.02	3,113,413.62	2,121.41
Transmission	196,245,804.44	202,955,977.54	(6,710,173.10)
System Loss Main	161,751,961.73	159,994,365.35	1,757,596.38
System Loss SPUG	488,707.33	499,079.72	(10,372.39)
	Subsidy	Discount	-
Lifeline	20,755,457.40	(21,545,085.43)	789,628.03
Senior Citizen	168,642.24	(177,232.62)	8,590.38
Net Results	1,282,334,057.36	1,240,007,909.04	477,949.03

8. In support of the computations made, ILECO III is submitting the following data and documents, covering the

period January 2012 to December 2014, labeled together and made an integral part of the application as Annex "A", to wit:

- a) Summary of the results of individual calculations of over or under recoveries made on the subject allowable costs;
- b) Supplier and Transmission Data Sheet;
- c) Statistical Data Sheet;
- d) Implemented Rates Data Sheet;
- e) Power Bills of Power Suppliers;
- f) Official Receipts (O.R.) issued by Power Suppliers;
- g) Breakdown of Payment with O.R.;
- h) Debit/Credit Memo of Power Suppliers;
- i) National Grid Corporation of the Philippines (NGCP) Invoices;
- j) O.R. issued by NGCP;
- k) Breakdown of Payment with O.R.;
- l) Debit/Credit Memo by NGCP;
- m) MFSR (Sections B and E);and
- n) Consumer Bills of Lifeliners (per level) and Non-Lifeliners per customer class and Senior Citizen (per level);

9. ILECO III prays that the Commission:

- a) Confirm and approve the calculations of over/under recoveries presented in the instant application; and
- b) Allow to refund/collect the said over/under recoveries to or from its customers, summarized as follows, to wit:

	Allowable Cost (Php)	Actual Revenue (Php)	(Over)/Under Recovery (Php)
Generation- Main	899,807,949.18	895,167,390.86	4,640,558.32
Generation-SPUG	3,115,535.02	3,113,413.62	2,121.41
Transmission	196,245,804.44	202,955,977.54	(6,710,173.10)
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Net Results	1,282,334,057.36	1,240,007,909.04	477,949.03

Having found ILECO III's *Application* sufficient in form and in substance with the required fees having been paid, the Commission issued an Order and a Notice of Public Hearing, both dated 12 October 2015, setting the case for initial hearing on 10 November 2015.

On 05 November 2015, ILECO III filed its *Pre-trial Brief* and *Judicial Affidavit* of Dhinny A. Apolinario.

During the hearing on 10 November 2015, only the representative of ILECO III appeared. There was no intervenor or oppositor who appeared, nor was there any intervention or opposition that was filed.

In the said hearing, ILECO III presented its proof of compliance with the Commission's posting and publication of notice requirements, which were subsequently marked as exhibits "A" to "D". Finding the submission compliant with the jurisdictional requirements enumerated in the Order dated 12 October 2015, the Commission acquired jurisdiction over the instant case.

Thereafter, the Expository Presentation was delivered under oath by the Operational Audit and Section Head and RCO of ILECO III, Ms. Dhinny A. Apolinario (Ms. Apolinario). Upon the conclusion of the Expository Presentation, the Commission propounded questions relevant to the instant case.

Thereafter, the hearing proceeded with the Pre-trial Conference and presentation of evidence. During the presentation of evidence, ILECO III again presented Ms. Apolinario, as its only witness, who testified in support of the instant case. In the course of her direct examination, Ms. Apolinario identified various documents, which were duly marked as exhibits.

Upon the termination of the presentation of evidence, the Commission directed ILECO III to submit its Formal Offer of Evidence, as well as additional documents to aid the Commission in the evaluation of the instant case.

On 08 December 2015, ILECO III filed before the Commission its *Formal Offer of Evidence*.

Subsequently, on 26 January 2017, the Commission issued an Order admitting ILECO III's marked exhibits contained in its *Formal Offer of Evidence* and submitting this case for resolution.

On 09 February 2017, the Commission deliberated and decided ILECO III's *Motion for Reconsideration* and the instant *Application*. However, due to supervening events², the Decision resolving the same could no longer be promulgated without undergoing reconfirmation by the Commission *En Banc*. Thus, the Commission resolved to reconfirm the Decision on 01 August 2017.

ISSUE

The issues to be resolved in the consolidated cases herein are the following:

- a) Whether the Commission should grant the *Motion for Reconsideration* of the Decision dated 10 November 2014 (Decision) filed by ILECO III under ERC Case No. 2012-012 CF.
- b) Whether the Commission should approve ILECO III's calculations of its (over) or under recovery for the period January 2012 to December 2014 under ERC Case No. 2015-018 CF.

COMMISSION'S RULING

The Commission denies the *Motion for Reconsideration* of ILECO III due to the reasons discussed below.

On the other hand, the Commission approves with modification the instant *Application* of ILECO III for its calculations of its (over) or under recovery for the period January 2012 to December 2014.

DISCUSSION

I. MOTION FOR RECONSIDERATION **ERC CASE NO. 2012-012 CF**

ILECO III in its *Motion for Reconsideration* seeks the re-computation and re-evaluation of the Mainland's (over)/under recoveries on Generation, Transmission and System Loss.

² The Chairman was placed on preventive suspension as per Order of the Office of the President (OP-DC Case No. 17-D-094) dated 2 May 2017 and received on 04 May 2017.

The Commission reiterates that its Decision on allowable costs for the Generation (Mainland), Transmission and System Loss (Mainland) are in accordance with the approved formulae under the Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities as covered by Resolution No. 16, Series of 2009³, as amended by Resolution No. 21, Series of 2010⁴, and Resolution No. 23, Series of 2010⁵ (*Rules*).

In the evaluation of ILECO III's first Application for over or under recovery, the Commission finds that ILECO III implemented its Power Supply Agreement (PSA) with Panay Energy Development Corporation (PEDC) without prior authority from the Commission. Moreover, ILECO III used the actual rate billed by PEDC in its computation of the allowable costs instead of the National Power Corporation Time-of-Use (NPC-TOU) rate. Apparently, the generation rate of PEDC was higher than the NPC-TOU rate for the months of April 2011 to September 2011.

It is the policy of the Commission that for PSA, which was implemented by the electric cooperative without the approval of the Commission, the rates to be applied therein would either be the generation rate under the PSA, or the NPC-TOU rate, whichever is lower. Accordingly, for ILECO III, since it implemented its PSA with PEDC without an authority from the Commission, the generation rate for the same was pegged at the NPC-TOU rate, which is lower than the PEDC rate.

Further, in determining its average generation rate, ILECO III used the Wholesale Electricity Spot Market (WESM) invoice kWh purchased net of the energy (kWh) equivalent to Site Specific Loss Adjustment (SSLA). The Commission finds that the same is not in accordance with the formula for the generation cost computation as embodied under the Rules.

For the transmission cost computation, the Commission likewise finds that ILECO III's computation was not in accordance with the formula set forth under the Rules. First, the equivalent fifty

³ Entitled, "A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities".

⁴ Entitled, "A Resolution Amending Section 4 of Article 4 and Section 1 of Article 5 of the Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities".

⁵ Entitled, "A Resolution Adopting the Rules Implementing the Discounts to Qualified Senior Citizen End-Users and Subsidy from the Subsidizing End-Users on Electricity Consumption under Sections 4 and 5 of Republic Act No. 9994".

percent (50%) Power Factor Discount (PFD) was added back to the transmission cost as billed by NGCP instead of deducting the 50% PFD from the total transmission cost. Second, in determining the transmission rate, the billing determinant used by ILECO III was the load billing determinant (kW) and the resulting transmission demand rate (PhP/kW) was then multiplied with the billing determinant demand (kW) to get the allowable transmission cost.

Accordingly, with the correct computation of the generation and transmission cost, this will definitely have an effect on the determination of the allowable system loss costs and on the transmission rate computation for the two subsidies, namely senior citizen and lifeline rate.

With regard to the issue on the discrepancy on the discussion on the amount of the lifeline subsidy on the body of the Decision and the dispositive portion thereof, ILECO III must note that in the dispositive portion, ILECO III was clearly directed to collect from its customers the lifeline subsidy amounting PhP3,727,931.35, or an equivalent rate of PhP0.0091/kWh, until such time the said amount is fully collected from its subsidizing customers.

On the issue of ILECO III's financial viability, the Commission verified through the submitted Audited Financial Statement of ILECO III for the year ending 31 December 2015 its capability to implement the refund under its first Application in ERC Case No. 2012-012 CF.

The Commission determines that there is a positive result on the cash and cash equivalents of ILECO III as of the year ending 2015. This means that ILECO III has the financial capability to implement the refund as directed by the Commission and would still be able to sustain its operation.

Finally, upon verification of the submitted July 2016 Uniform Reportorial Requirement (URR) of ILECO III, the Commission finds that ILECO III failed to implement the refund and collect rates pursuant to the Decision of the Commission. The same is contrary to and in violation of the provision under Rule 23, Section 3 of the Commission' Rules of Practice and Procedure, to wit:

“Section 3. Effect of Filing of Motion for Reconsideration. - The filing of a motion for reconsideration shall stop the running of the fifteen-(15) day period in Section 5 of Rule 22 and prevent the final order, resolution or decision of the Commission

from becoming final and inappealable. **However, unless otherwise ordered by the Commission, such filing shall not prevent the final order, resolution or decision from becoming effective**, as the same shall be effective upon the date specified therein or upon the lapse of the fifteen-(15) day period, as the case may be.” (Emphasis Supplied).

Therefore, ILECO III is found to have committed a violation of the foregoing Rules for its failure to implement the Decision of the Commission as of July 2016.

Further, based on the documents submitted by ILECO III, the Commission finds that the costs for generation, transmission and system loss for the Mainland were computed by ILECO III not in accordance with the prescribed formula set under the Rules and the existing policy of the Commission.

In view of the foregoing, the Commission finds no merit in the *Motion for Reconsideration* filed by ILECO III. Accordingly, the same is hereby denied for lack of merit.

II. INSTANT APPLICATION ERC CASE NO. 2015-018 CF

The Commission approves with modification ILECO III’s calculations of (over)/under recovery.

In its *Application*, ILECO III sought the approval by the Commission of the following (over) and under recoveries:

	Allowable Cost (Php)	Actual Revenue (Php)	(Over)/Under Recovery (Php)
Generation- Main	899,807,949.18	895,167,390.86	4,640,558.32
Generation-SPUG	3,115,535.02	3,113,413.62	2,121.41
Transmission	196,245,804.44	202,955,977.54	(6,710,173.10)
System Loss Main	161,751,961.73	159,994,365.35	1,757,596.38
System Loss SPUG	488,707.33	499,079.72	(10,372.39)
	Subsidy	Discount	-
Lifeline	20,755,457.40	(21,545,085.43)	789,628.03
Senior Citizen	168,642.24	(177,232.62)	8,590.38
Net Results	1,282,334,057.36	1,240,007,909.04	477,949.03

Pursuant to Resolution No. 16, Series of 2009⁶, as amended by Resolution No. 21, Series of 2010⁷, and Resolution No. 23, Series of 2010⁸, the formulae below were adopted in the computation of the following: 1) Generation Rate; 2) Transmission Rate; 3) System Loss; 4) Lifeline Subsidy; and 5) Senior Citizen Subsidy:

Generation Rate:

$$GOUR = \frac{[(AGC - GRR) + rGOUR]}{S_{GOUR}^{Total}}$$

Where:

GOUR = Refers to (over) or under-recoveries in generation costs during the recovery period expressed in Peso/kWh

AGC = Refers to total allowable generation cost, computed as follows:

$$AGC = \sum_{i..m} \left[\left(\frac{(GC_i + GC_{ii} + \dots GC_n) - 50\%(PPD_i + PPD_{ii} + \dots PPD_n) - PCR_{GOUR}}{TPG_{GOUR}} \right) S_{GOUR} \right]$$

Transmission Rate:

For Customer classes with TR expressed in Peso/kWh:

$$TOUR_N = \frac{[(ATC_N - TRR_N) + rTOUR_N]}{S_{TOUR_N}}$$

For Customer classes with TR expressed in Peso/kW, and Customer classes with TR expressed in both Peso/kWh and Peso/kW:

⁶ Entitled, "A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities".

⁷ Entitled, "A Resolution Amending Section 4 of Article 4 and Section 1 of Article 5 of the Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities".

⁸ Entitled, "A Resolution Adopting the Rules Implementing the Discounts to Qualified Senior Citizen End-Users and Subsidy from the Subsidizing End-Users on Electricity Consumption under Sections 4 and 5 of Republic Act No. 9994".

$$TOUR_N = \frac{[(ATC_N - TRR_N) + rTOUR_N]}{BD_{TOUR_N}}$$

Where:

$TOUR_N$ = Refers to over/under recoveries in transmission cost during the recovery period expressed in Peso/kWh for class N

ATC_N = Refers to the actual transmission cost during the recovery period computed as follows:

$$ATC_N = \sum_{l..m} \left[\left(\frac{TC - 50\%PFD}{TPG_{TOUR}} \right) S_{TOUR} \right] CP_N$$

System Loss:

$$SLOUR = \frac{[(ASLC - ASLR) + rSLOUR]}{S_{SLOUR}}$$

Where:

$SLOUR$ = Refers to (over) or under-recoveries in system loss during the recovery period expressed in Peso/kWh

$ASLC$ = Allowable System Loss Cost incurred during the recovery period determined as follows:

$$ASLC = ASLC_{Y1} + ASLC_{Y2} + \dots ASLC_{Yn}$$

Where:

$$ASLC_{Y1..n} = \left(\left[\frac{GTGC_Y}{TPG_Y} + \frac{TC_Y - 50\%PFD_Y}{TPG_Y} \right] U \right) S_Y$$

Lifeline Subsidy:

$$LSOUR = \frac{LD}{S_{LSOUR_{NL-TOTAL}}}$$

Where:

LSOUR = Refers to (over) or under-recoveries on lifeline subsidy during the recovery period expressed in Peso/kWh

LD = Difference between the Total Discounts given to lifeline customers and Total Subsidy collected from non-lifeline customers, computed as follows:

$$LD = \sum_{1..m} (TS - TD)$$

Where:

TS = Lifeline subsidy amount collected from non-lifeline customers for month 1 to m, computed as follows:

$$TS = S_{LSOUR_{NL}} \times LSR$$

Where:

S_{LSOURNL} = total kWh consumption of non-lifeline customers for the month

LSR = lifeline subsidy rate per kWh collected from non-lifeline customers for the month

TD = total discount amount given to lifeline customers for month 1 to m, computed as follows:

$$TD_i = \sum_{j=1..n} [((S_{LSOUR_{jL}} \times TRate) + (NCust_{jL} \times Fixed/Cust)) \times D]$$

Senior Citizen Subsidy:

$$SrDSOUR = \frac{SrDiff_{S-D}}{kWhS_{SrDSOUR_{SEU}}}$$

Where:

$SrDSOUR$ = Refers to the (over) or under-recoveries on senior citizen discounts and subsidy during the recovery period subject for verification expressed in PhP/kWh

$SrDiff_{S-D}$ = Summation of the difference between the total subsidy collected from all subsidizing end-users and the total discounts granted to senior citizen end-users for each and every recovery month within the period covered by the verification process, computed as follows:

$$SrDiff_{S-D} = \sum_{i..n} (TS_{SEU_i} - TD_{ST_i})$$

Where:

TS_{SEU_i} = Total amount of subsidy collected from all subsidizing end-users for the recovery month, computed as follows:

$$TS_{SEU_i} = SrSR_{SEU_i} \times kWhS_{SEU_i}$$

Where:

$SrSR_{SEU_i}$ = Senior Citizen Subsidy Rate expressed in Peso/kWh implemented or collected from all subsidizing end-users for the recovery month

$kWhS_{SEU_I}$ = Total kWh Sales to all subsidizing end-users for the recovery month

TD_{Sr_I} = Total amount of discounts implemented or granted to all qualified senior citizen end-users for the recovery month, computed as follows:

$$TD_{Sr_I} = \sum TD_{SrResl_I} + \sum TD_{SrInst_I}$$

Where:

$\sum TD_{SrResl_I}$ = Total amount of discount implemented or granted to all qualified residential senior citizens customer for the recovery month

$\sum TD_{SrInst_I}$ = Total amount of discount implemented or granted to all qualified senior citizen centers and residential care facilities/institutions or group homes for the recovery month

In determining the resulting (over)/under recoveries of ILECO III for the period from January 2012 to December 2014, the Commission adopted the following consideration in its evaluation of the instant *Application*:

A. Generation Cost

ILECO III computed its Generation Cost based on the previous month's invoices issued by its power suppliers; namely, NPC and PEDC, for the period from January 2012 to December 2014, Green Core Geothermal, Incorporated, (GCGI), for the period January 2013, and WESM for the period from January 2012 to December 2014.

On the other hand, the Commission computed the generation cost based on the actual current month's invoices issued by ILECO III's power suppliers.

However, the Commission noted the following discrepancy in the generation cost that contributed to the resulting (over) recovery in the generation cost of ILECO III:

- 1) For its generation cost with NPC, ILECO III included in its computation of generation cost, the Minimum Charge Adjustment for the month of August 2012 in the amount of PhP3,314,940.93. However, the Commission excluded the said amount considering that the same is a penalty that ILECO III cannot pass-on to its customers.
- 2) For its generation cost with PEDC, ILECO III failed to include in its computation the amount of PhP604,662.47 for the month of December 2013.
- 3) For its generation cost with GCGI, ILECO III also failed to include in its computation the amount of PhP2,318,656.05 for the month of December 2013.
- 4) As to its supply from the WESM, ILECO III included in its computation the losses it incurred due to trading for the months of November 2013, July 2014, September 2014, and December 2014. However, the Commission excluded the losses incurred by ILECO III for the said months in the amount of PhP9,245,628.53.

B. kWh Purchased

Further to its determination of the generation cost, the Commission considered the kWh purchased by ILECO III from its power suppliers.

ILECO III based its kWh purchased in the submitted invoices from its suppliers.

The Commission likewise used the same invoices from ILECO III's suppliers. However, the Commission excluded therefrom the equivalent energy of 269,140 kWh losses incurred due to WESM

trading on the specified months, and the Minimum Charge Adjustment from NPC equivalent to 139,442 kWh for the month of April 2014.

C. Prompt Payment Discount (PPD)

Further, the Commission considered the PPD availed by ILECO III from its power suppliers in the determination of its generation cost.

ILECO III deducted only twenty-five percent (25%) of the PPD from its Mainland's generation cost from 2012-2014 availed from the rest of its suppliers, or in the amount of PhP3,432,836.88.

On the other hand, the Commission deducted fifty percent (50%) of the total PPD, net of the consumers-PPD extended by ILECO III, from the respective total generation cost from 2012 to 2014 of SPUG areas and Mainland in the amount of PhP55,958.65 and PhP4,515,069.04, respectively.

The Commission notes that the erroneous determination of the PPD by ILECO III resulted to an (over) recovery in its generation cost.

D. Pilferage Cost Recoveries (PCR)

The PCR for the months of July 2013 and September 2013 amounting to PhP837,389.36 was also deducted in the Mainland's generation cost computation.

E. Transmission Cost

For its Transmission Cost, ILECO III based the same on the previous month's invoices issued by NGCP. On the other hand, the Commission based the same on the current month's invoices issued by NGCP.

Further, ILECO III computed the allowable transmission cost per customer class. On the other hand, the Commission determined the allowable transmission cost using the current month sales and the computed rates.

Moreover, ILECO III computed its transmission cost by deducting twenty-five percent (25%) of the Power Factor Discount (PFD) it availed from NGCP for the period January 2012 to December 2013. On the other hand, the Commission deducted fifty percent (50%) of the PFD from the transmission cost in the amount of PhP1,383,230.63.

F. System Loss

ILECO III used the monthly running average system loss or the cap, whichever is lower. On the other hand, the Commission used the actual annual system loss, or the cap of 13%, whichever is lower.

G. kWh Sales

For the total kWh Sales, ILECO III based the same on the actual kWh sales for the previous month excluding the company use for the months of May 2012, June 2012, and August 2012. On the other hand, the Commission used the actual total kWh sales for the current month including the company use of 55,513 kWh for the said months.

H. Lifeline Rate Subsidy

For the Lifeline Rate Subsidy, ILECO III computed the same monthly using the previous month data. On the other hand, the Commission used the current month data in the computation thereof pursuant to Resolution No. 16, Series of 2009⁹, as amended by Resolution No. 21, Series of 2010¹⁰, and Resolution No. 23, Series of 2010¹¹.

I. Senior Citizen Subsidy

For the Senior Citizen Subsidy, ILECO III computed the same monthly using on the previous month data. On the other hand, the Commission used the current month data in the computation thereof pursuant to Resolution No. 16, Series of 2009¹², as amended by

⁹ See, *supra* note 1.

¹⁰ See, *supra* note 2

¹¹ See, *supra* note 3.

¹² See, *supra* note 1.

Resolution No. 21, Series of 2010¹³, and Resolution No. 23, Series of 2010¹⁴.

However, the Commission notes that the the change in transmission rate and the use of corrected kWh sales generated an (over) recovery to the senior citizen subsidy.

J. Revenues

Revenues for generation and system loss cost were derived based on the implemented rate. While revenues for transmission cost, was determined inclusive of the corresponding revenues from the demand charge (PhP/kW) of customers with mix rates, which includes low voltage (LV) and higher voltage (HV) customers, for the period January 2012 to August 2012.

Further, the Commission considered its previous issuances in the following cases:

1. Decision dated 01 August 2011 issued by the Commission granting final authority to ILECO III to implement its Contract for the Electric Power Purchase Agreement (EPPA) with PEDC under ERC Case No. 2011-077 RC¹⁵; and
2. The Order dated 24 June 2013 issued by the Commission granting provisional authority to ILECO III to implement its PSA with GCGI under ERC Case No. 2013-093 RC¹⁶.

In the instant *Application*, ILECO III alleged a total net under recovery of PhP477,949.03. However, after a careful scrutiny and evaluation of the records and submissions of ILECO III, the Commission arrived at a total net (over) recovery of PhP(17,273,823.00), as shown in the table below:

¹³ See, *supra* note 2

¹⁴ See, *supra* note 3.

¹⁵In the Matter of the Application for Approval of the Electric Power Purchase Agreement(EPPA) Between Iloilo III Electric Cooperative, Inc. and Panay Energy Development Corporation, with Prayer for Provisional Authority.

¹⁶ In the Matter of the Application for Approval of the Power Supply Agreement (PSA) Between Iloilo III Electric Cooperative, Inc. and Green Core Geothermal Inc., with Prayer for Provisional Authority.

PARTICULARS	ILECO III's Proposed (Over)/Under Recoveries PhP	Commission's Approved (Over)/Under Recoveries PhP
MAINLAND		
Generation	4,640,558.32	(9,363,709.34)
Transmission	(6,710,173.10)	(8,831,900.41)
System Loss	1,757,596.38	366,609.84
Lifeline Subsidy	789,628.03	707,459.88
SPUG-GIGANTES		
Generation	2,121.41	(43,268.82)
System Loss	(10,372.39)	(4,856.62)
MAINLAND & SPUG-GIGANTES		
Senior Citizen Subsidy	8,590.38	(104,157.53)
TOTAL NET (OVER)- RECOVERY	477,949.03	(17,273,823.00)

In view of the substantial disparity between the total (over)/under recovery claimed by ILECO III in its *Application* and the total (over)/under recovery determined pursuant to the Commission's standards, ILECO III is reminded to be more judicious in the preparation of its application submitted before the Commission. ILECO III is expected at all times to exude fair dealing which includes careful preparation of information embodied in its application or petition before this Commission.

Consequently, the current computed total over recoveries of ILECO III for the period January 2012 to December 2014 amounts to a total net **(over) recovery of SEVENTEEN MILLION TWO HUNDRED SEVENTY THREE THOUSAND AND EIGHT HUNDRED TWENTY THREE PESOS [(PhP(17,273,823.00))].**

WHEREFORE, the foregoing premises considered, the *Motion for Reconsideration* filed by Iloilo III Electric Cooperative, Inc. (ILECO III) under ERC Case No. 2012-012 CF is hereby **DENIED** for lack of merit.

On the other hand, the *Application* filed by ILECO III under ERC Case No. 2015-018 CF, for confirmation and approval of its calculations of (over) or under recoveries in the implementation of automatic cost adjustments and true-up mechanisms for the period January 2012 to December 2014 is hereby **APPROVED WITH MODIFICATION**.

ACCORDINGLY, ILECO III is directed to **REFUND** the following amounts starting on the next billing cycle from receipt hereof:

1. **GENERATION COST** (over) recoveries for **Mainland** amounting PhP(9,363,709.34), or its equivalent rate of PhP(0.0380)/kWh for a period of 36 months, or until the said amount shall have been fully refunded to its customers.

2. **GENERATION COST** (over) recoveries for **SPUG-Gigantes** amounting PhP(43,268.82), or its equivalent rate of PhP(0.0394)/kWh for a period of 36 months, or until the said amount shall have been fully refunded to its customers.

3. **TRANSMISSION COST** (over) recoveries amounting to PhP(8,831,900.41), or its equivalent rates per customer class specified below for a period of 36 months, or until the said amount shall have been fully refunded to its customers, to wit:

Customer Class	PhP/kWh	PhP/kW
Residential	(0.0417)	
Low Voltage	(0.0251)	
Higher Voltage		(7.3431)

4. **SYSTEM LOSS** (over) recoveries for **SPUG-Gigantes** amounting to PhP(4,856.62), or its equivalent rate of PhP(0.0044)/kWh for a period of 36 months, or until the said amount shall have been fully refunded to its customers.

5. **SENIOR CITIZEN SUBSIDY** total (over) recoveries amounting to PhP(104,157.53), or its equivalent rate of PhP(0.0004)/kWh for a period of 36 months, or until the said amount shall have been fully refunded to its subsidizing customers.

Further, ILECO III is hereby directed to **COLLECT** the following amounts starting on the next billing cycle from receipt hereof:

1. **SYSTEM LOSS** under recoveries for **Mainland** amounting to Php366,609.84, or its equivalent rate of Php0.0015/kWh for a period of 36 months, or until the said amount shall have been fully collected from its customers.

2. **LIFELINE RATE SUBSIDY** under recoveries amounting to Php707,459.88, or its equivalent rate of Php0.0030/kWh for a period of 36 months, or until the said amount shall have been fully collected from its non-lifeline customers

Finally, ILECO III is hereby directed to continue implementing the Decision dated 10 November 2014 under ERC Case No. 2012-012 CF, which previously confirmed its collect or refund rate, until such time that the full amount shall have been fully collected or refunded.

In connection to the foregoing, ILECO III is hereby directed to:

- a) **SUBMIT** within ten (10) days from its implementation, a sworn statement indicating its compliance with the aforesaid directives.

- b) **REFLECT** the (over) or under recoveries in the monthly computations of Generation Rate (GR), Transmission Rate (TR), System Loss Rate (SLR), Lifeline Subsidy Rate (LSR) and Senior Citizen Subsidy Rate (SrSR) as "OGA" for Generation, "OTCA" for Transmission, "OSLA" for System Loss, "OLRA" for Lifeline Subsidy and "OSrRA" for Senior Citizen Subsidy.

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- c) **ACCOMPLISH** and **SUBMIT** a report, in accordance with the attached prescribed format, on or before the 30th day of the following month together with the monthly reportorial requirements, and every month thereafter, until the amount shall have been fully refunded or collected.

SO ORDERED.


Pasig City, 01 August 2017.

JOSE VICENTE B. SALAZAR*
Chairman and CEO


ALFREDO J. NON
Commissioner


GLORIA VICTORIA C. YAP-TARUC
Commissioner


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Commissioner


GERONIMO D. STA. ANA
Commissioner

IED: GHFM/JAGF/NDC//FABD
LS: LSP/APV

*The Chairman was placed on preventive suspension as per Order of the Office of the President (OP-DC Case No. 17-D-094) dated 2 May 2017 and received on 04 May 2017.

ERC CASE NO. 2012-012 CF
ERC CASE NO. 2015-018 CF
DECISION/01 AUGUST 2017
PAGE 26 of 27

Copy Furnished:

1. **De Chavez & Evangelista**
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Pasig City, Metro Manila
2. **Iloilo III Electric Cooperative, Inc. (ILECO III)**
Barangay Preciosa, Sara, Iloilo
3. **Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village, Makati City, Metro Manila
4. **Commission on Audit**
Commonwealth Avenue, Quezon City, Metro Manila
5. **Senate Committee on Energy**
GSIS Bldg. Roxas Blvd., Pasay City
6. **House Committee on Energy**
Batasan Hills, Quezon City, Metro Manila
7. **Office of the Municipal Mayor**
Ajuy, Iloilo
8. **Office of the Sangguniang Bayan**
Ajuy, Iloilo
9. **Office of the Municipal Mayor**
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- Concepcion, Iloilo
22. **Office of Sangguniang Bayan**
Concepcion, Iloilo
 23. **Office of the Municipal Mayor**
Estancia, Iloilo
 24. **Office of Sangguniang Bayan**
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 25. **Office of the Municipal Mayor**
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 26. **Office of Sangguniang Bayan**
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 29. **Office of the Municipal Mayor**
San Rafael, Iloilo
 30. **Office of Sangguniang Bayan**
San Rafael, Iloilo
 31. **Office of the Municipal Mayor**
Sara, Iloilo
 32. **Office of Sangguniang Bayan**
Sara, Iloilo
 33. **Office of the Provincial Governor**
Province of Iloilo
 34. **Office of the Sangguniang Panlalawigan**
Province of Iloilo
 35. **Philippine Chamber of Commerce and Industry (PCCI)**
Office of the President of PCCI
3rd Floor, Chamber and Industry Plaza (CIP)
1030 Campus Avenue corner Park Avenue
McKinley Town Center, Fort Bonifacio, Taguig City
 36. **Investigation and Enforcement Division (IED)**
Energy Regulatory Commission (ERC)
17th Floor, Pacific Center, San Miguel Avenue, Pasig City

Other Generation Rate Adjustment (OGA) Charge

Name of DU: _____
 ERC Case No.: _____
 Order Date: _____
 Total Amount to be Collected: _____
 Rate per kWh (PhP/kWh): _____

This report should be submitted on or before the 30th of the following month, together with the monthly reportorial requirement, and every month thereafter until the amount shall have been fully recovered.

**Other Generation Rate Adjustment (OGA) Charge
 Amount Collected/Refund
 For the Period Covering _____**

Month	Rate/kWh	kWh Sold ¹	Amount Collected	Balance in Amount
Beginning Balance				0.00
Customer Class				
1.				
2.				
3.				
4.				
5.				
TOTAL				
Ending Balance				0.00

¹/ Indicate the kWh sold used in the calculation of collect.

Prepared by:

Reviewed by:

Certified True and Correct:

 (Name & Position)

 Finance/Billing Manager

 General Manager

OATH

SUBSCRIBED AND SWORN to before me this _____ day of _____, 201__ at _____.
 The affiant exhibited to me his/her CTC No. _____ issued on _____ at _____.

 Notary Public

Other Transmission Cost Adjustment (OTCA) Charge

Name of DU: _____
 ERC Case No.: _____
 Order Date: _____
 Total Amount to be Collected: _____
 Rate per kWh (PhP/kWh): _____

This report should be submitted on or before the 30th of the following month, together with the monthly reportorial requirement, and every month thereafter until the amount shall have been fully recovered.

Other Transmission Cost Adjustment (OTCA) Charge
Amount Collected
 For the Period Covering _____

Month	Rate/kWh	kWh Sold ¹	Amount Collected	Balance in Amount
Beginning Balance				0.00
Customer Class				
1.				
2.				
3.				
4.				
5.				
TOTAL				
Ending Balance				0.00

¹ / Indicate the kWh sold used in the calculation of collect.

Prepared by: _____
 (Name & Position)

Reviewed by: _____
 Finance/Billing Manager

Certified True and Correct: _____
 General Manager

OATH
 SUBSCRIBED AND SWORN to before me this _____ day of _____, 201__ at _____.
 The affiant exhibited to me his/her CTC No. _____ issued on _____ at _____.

 Notary Public

Other System Loss Cost Adjustment (OSLA) Charge

Name of DU: _____
 ERC Case No.: _____
 Order Date: _____
 Total Amount to be Collected: _____
 Rate per kWh (PhP/kWh): _____

This report should be submitted on or before the 30th of the following month, together with the monthly reportorial requirement, and every month thereafter until the amount shall have been fully recovered.

Other System Loss Cost Adjustment (OSLA) Charge
Amount Collected/Refund
 For the Period Covering _____

Month	Rate/kWh	kWh Sold ¹	Amount Collected	Balance in Amount
Beginning Balance				0.00
Customer Class				
1.				
2.				
3.				
4.				
5.				
TOTAL				
Ending Balance				0.00

¹/ Indicate the kWh sold used in the calculation of collect.

Prepared by: _____
 (Name & Position)

Reviewed by: _____
 Finance/Billing Manager

Certified True and Correct: _____
 General Manager

OATH
 SUBSCRIBED AND SWORN to before me this _____ day of _____, 201____ at _____
 The affiant exhibited to me his/her CTC No. _____ issued on _____ at _____.

 Notary Public

Other Lifeline Rate Cost Adjustment (OLRA) Charge

Name of DU: _____
 ERC Case No.: _____
 Order Date: _____
 Total Amount to be Collected: _____
 Rate per kWh (PhP/kWh): _____

This report should be submitted on or before the 30th of the following month, together with the monthly reportorial requirement, and every month thereafter until the amount shall have been fully recovered.

**Other Lifeline Rate Cost Adjustment (OLRA) Charge
 Amount Collected/Refund
 For the Period Covering _____**

Month	Rate/kWh	kWh Sold ¹	Amount Collected	Balance in Amount
Beginning Balance				0.00
Customer Class				
1.				
2.				
3.				
4.				
5.				
TOTAL				
Ending Balance				0.00

¹ / Indicate the kWh sold used in the calculation of collect.

Prepared by:

 (Name & Position)

Reviewed by:

 Finance/Billing Manager

Certified True and Correct:

 General Manager

SUBSCRIBED AND SWORN to before me this _____ day of _____, 201____ at _____
 The affiant exhibited to me his/her CTC No. _____ issued on _____ at _____

 Notary Public

Senior Citizen Discount & Subsidy Over Under Recovery

Name of DU: _____
 ERC Case No.: _____
 Order Date: _____
 Total Amount to be Collected: _____
 Rate per kWh (PhP/kWh): _____

This report should be submitted on or before the 30th of the following month, together with the monthly reportorial requirement, and every month thereafter until the amount shall have been fully recovered.

Senior Citizen Discount & Subsidy Over Under Recovery
Amount Collected/Refund
 For the Period Covering _____

Month	Rate/kWh	kWh Sold ¹	Amount Collected	Balance in Amount
Beginning Balance				0.00
Customer Class				
1.				
2.				
3.				
4.				
5.				
TOTAL				
Ending Balance				0.00

¹/ Indicate the kWh sold used in the calculation of collect.

Prepared by: _____ Reviewed by: _____ Certified True and Correct: _____
 (Name & Position) Finance/Billing Manager General Manager

OATH

SUBSCRIBED AND SWORN to before me this _____ day of _____, 201__ at _____.
 The affiant exhibited to me his/her CTC No. _____ issued on _____ at _____.

 Notary Public