

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



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF
ADJUSTMENT IN RATES
COVERING THE FIRST TO
THIRD REGULATORY
YEARS OF THE SECOND
REGULATORY PERIOD FOR
THE SECOND ENTRANT
GROUP UNDER THE
TARIFF GLIDE PATH (TGP)
RULES, WITH MOTION FOR
PROVISIONAL AUTHORITY,**

ERC CASE NO. 2017 -058 RC

**ZAMBOANGA DEL SUR II
ELECTRIC COOPERATIVE,
INC. (ZAMSURECO II),
Applicant.**

D O C K E T E D
Date: OCT 03 2017
By: W

X-----X

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 14 June 2017, Zamboanga del Sur II Electric Cooperative, Inc. (ZAMSURECO II) filed an Application dated 29 May 2017 (Application) seeking the Commission's approval for the adjustment in its rates in accordance with the rules governing the tariff glide path pursuant to Article VII of the Rules for Setting the Rural Electric Cooperatives' Wheeling Rates (RSEC-WR) with prayer for the issuance of provisional authority.

ZAMSURECO II alleged the following in its *Application*:

THE APPLICANT

1. ZAMSURECO II 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 offices at Pangi, Ipil, Zamboanga Sibugay;

2. It holds an exclusive franchise from the National Electrification Commission, to operate an electric light and power distribution service in the municipalities of Lakewood, Bayog, and Kumalarang, Province of Zamboanga del Sur; Buug, Diplahan, Malangas, Imelda, Alicia, Payao, Siay, Kabasalan, Naga, Ipil, Titay, Roseller T. Lim, Tungawan, Mabuhay, Talusan and Olutanga, Province of ZamboangaSibugay; Sirawai, Siocon, Sibuco and Baliguian, Province of Zamboanga del Norte; and the district of Vitali, Zamboanga City.

NATURE OF APPLICATION

3. The instant application is being filed for the approval of Applicant's proposed adjustment in its Distribution, Supply and Metering (DSM) Rates to be implemented on the first to third regulatory years of the Second Regulatory Period for Electric Cooperatives belonging to the Second Entrant Group under the Tariff Glide Path Rules (TGP Rules) and pursuant to said Rules, as well as other pertinent laws and rules.

STATEMENT OF FACTS

4. Sometime in 2014, Applicant filed with the Honorable Commission an application for approval of the proposed adjustment in its DSM Rates pursuant to the TGP Rules, docketed as ERC Case No. 2014-103RC.
5. In the said application, Applicant prayed for approval of either of the following two (2) proposed alternative DSM rates, to be implemented effective January 2015, to wit:

a) WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			230.70
Distribution System Charge	PhP/kWh	0.6072	0.7976	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		45.07	45.07
Supply System Charge	PhP/kWh	0.6302		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.25	37.74	37.74
Metering System Charge	PhP/kWh	0.4543		

b) EXCLUDING PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage

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Distribution Charges:				
Demand Charge	PhP/kW			228.94
Distribution System Charge	PhP/kWh	0.6026	0.7915	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		44.73	44.73
Supply System Charge	PhP/kWh	0.6254		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.21	37.45	37.45
Metering System Charge	PhP/kWh	0.4508		

6. Foregoing application was Applicant's initial application for DSM rate adjustment pursuant to the TGP Rules, under which electric cooperatives are given an opportunity to adjust their rates once every three (3) years, which may occur at the start of the fourth year of the First Regulatory Period and every three years thereafter;
7. Applicant belongs to the Second Entrant Group under the TGP Rules, whose first regulatory period is from January 1, 2012 to December 31, 2017. Having filed its initial application for DSM rate adjustment in 2014, the third regulatory year of the First Regulatory Period, the cooperative is filing the instant application in the current year 2017, the sixth regulatory year of the First Regulatory Period, for the proposed adjustment of its DSM rates to be implemented on the first to the third regulatory years of the Second Regulatory Period for the Second Entrant Electric Cooperatives under the TGP Rules;
8. The first TGP Application under ERC Case No. 2014-103 RC has already been heard on the merits and now submitted for evaluation. Despite the pendency of ERC Case No. 2014-103 RC, Applicant is constrained to adopt and use the proposed DSM rates in said pending application as bases in computing the proposed adjustment in the instant Application.

THE PROPOSED DSM RATE ADJUSTMENT

9. Under the TGP Rules, the concerned electric cooperative shall use the following formula in determining the TGP for the fourth to sixth years of the Regulatory Period, to wit:

$$TGP_B = TGP_n + TGP_{n+1} TGP_{n+2}$$

where

$$TGP_n = I_n - X_n + S_n$$

n= the fourth year of the Regulatory Period and succeeding Regulatory Periods

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The TGP calculated for each of the three years will be summed to determine the possible rate adjustment starting on the First Year of the next Regulatory Period.

10. Applying the methodology embodied in the TGP Rules, herein Applicant calculated the values of the "I", "X" and "S" and came up with the following results, to wit:

	"I"(B)	"X"(B)	"S"(B)	TGP B	TGP B (excluding S)
YEAR 2015	0.00%	0.00%	0.80%	0.80%	0.00%
YEAR 2016	0.00%	3.86%	1.20%	-2.66%	-3.86%
YEAR 2017	0.00%	0.00%	1.60%	1.60%	0.00%
TOTAL				-0.26%	-3.86%

11. Utilizing the above values will result in adjustments in the cooperative's DSM Rates covering the first to third years of the Second Regulatory Period for electric cooperatives belonging to the Second Entrant Group, as follows:

A. WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			230.09
Distribution System Charge	PhP/kWh	0.6056	0.7955	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		44.95	44.95
Supply System Charge	PhP/kWh	0.6285		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.24	37.64	37.64
Metering System Charge	PhP/kWh	0.4531		

B) EXCLUDING PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				

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Demand Charge	PhP/kW			220.10
Distribution System Charge	PhP/kWh	0.5793	0.7609	
Supply Charges:				
Retail Customer Charge	PhP/Customer /Mo		43.00	43.00
Supply System Charge	PhP/kWh	0.6012		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo	5.01	36.01	36.01
Metering System Charge	PhP/kWh	0.4334		

12. Consequently, Applicant respectfully prays that it be allowed to implement either of the above two calculated alternative DSM rates, effective January 1, 2018 and up to December 31, 2020.

SUPPORTING DATA AND DOCUMENTS

13. In support of the foregoing computations, Applicant is submitting herewith the following documents, which are being made integral parts hereof, to wit:

Annex Markings	Nature of Document
A to A-2	Proposed TGP Calculations and supporting documents using the prescribed templates: Index "I" Calculation Efficiency Factor "X" Calculation Performance Incentive "S" Calculation
B	MFSR - Sections B and E (2013-2016)
C	Billing Determinants Template (2013-2016 kWh Sales, No. of Customers and kW Demand)
D	Sample Bills per customer type (2013-2016)
E	Regional CPI (2013-2016)
F	RFSC Utilization (2014-2016)
G	Consumer Complaints Summary or Tracking Form (2014-2016)
H	Audited Financial Statements (2014-2016)

ALLEGATIONS IN SUPPORT OF THE MOTION FOR PROVISIONAL AUTHORITY

14. Applicant respectfully repleads herein the foregoing allegations;

15. Applicant respectfully prays that it be allowed to implement the proposed rate adjustment starting January 1, 2018, considering that it is expressly prescribed under the TGP Rules' provision on Regulatory Period and Process, which provides in part, as follows:

"2. Regulatory Period and Process

2.1 On or before each Fourth month of the Third and Sixth regulatory year of their respective Regulatory Periods, the electric cooperative may file before the Commission an application for a rate adjustment reflecting the values for the "I", "X" and "S" as determined in accordance with these rules. ***The initial tariff caps of the respective ECs shall be adjusted by the "I, "X" and "S" effective at the start of the Fourth Regulatory Year of the First Regulatory Period*** x xx" (Emphasis ours)

16. Under the TGP Rules, the regulatory period is six (6) years for each entry Group. For the Second Entrant Group, the first regulatory period is from January 1, 2012 to December 31, 2017 and the start of the Fourth Regulatory Year is January 1, 2015. Applicant belongs to the Second Entrant Group, accordingly, its initial DSM Rates under the TGP Rules should be adjusted through the proposed TGP B Rates starting January 1, 2018;
17. Aside from the foregoing, Applicant further prays for provisional authority to implement the proposed rates effective January 1, 2018 and even during the pendency of the instant application, considering that the cooperative urgently needs additional funds to be able to cope with the rising costs of its operations. Among the major factors that added to its operating costs is the implementation of the Sitio Energization Program (SEP) of the government consisting of massive extension of its distribution lines up to the remotest and far-flung areas which considerably increased its operations and maintenance costs and likewise resulted to increased system losses which the cooperative is constrained to absorb;
18. Further, the rising cost of materials, tools, equipment, supplies, fuel and other costs incidental to its daily operations has considerably increased these past several years and the funds being generated from the cooperative's DSM revenues granted by the Honorable Commission way back in Year 2010 by virtue of the Rules for Setting the Electric Cooperatives' Wheeling Rates (RSEC-WR), is no longer sufficient to cover those costs, and if not addressed accordingly with the adjustment of its rates, Applicant's service to its consumers will be prejudiced.

19. Considering the foregoing, it is respectfully prayed that Applicant be allowed to implement the proposed DSM Rates effective January 1, 2018, even while the instant application is pending hearing or evaluation of the Honorable Commission.

COMPLIANCE WITH PRE-FILING REQUIREMENTS

20. Finally, in compliance with the pre-filing requirements for the instant application, Applicant is likewise submitting herewith the following documents, which are being made integral parts hereof, to wit:

Annex Markings	Nature of Document
I	Judicial Affidavit in support of the motion for provisional authority
J and series	Proof of furnishing copies of the Application to the Sangguniang Bayan of Ipil and Sangguniang Panlalawigan of Zamboanga Sibugay
K and series	Publication of the Application in a newspaper of general circulation in ZAMSURECO II's franchise area or where it principally operates, with Affidavit of Publication

PRAYER

WHEREFORE, premises considered, it is most respectfully prayed of this Honorable Commission that either upon initial evaluation or after due notice and hearing, Applicant ZAMSURECO II be allowed to implement either of the following two (2) alternative proposed new rates for its Distribution, Supply and Metering (DSM) Charges, effective January 2018, to wit:

A. WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			230.09
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	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
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Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo	5.01	36.01	36.01
Metering System Charge	PhP/kWh	0.4334		

Other reliefs, just and equitable in 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 **25 October 2017 (Wednesday) at ten o'clock in the morning (10:00 A.M.), at ZAMSURECO II's principal office at Pangi, Ipil, Zamboanga Sibugay.**

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 Applicant concludes the presentation of its evidence, 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 OIC Chairman and CEO **ALFREDO J. NON**, and the Honorable Commissioners **GLORIA VICTORIA C. YAP-TARUC** and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 27th day of September 2017 in Pasig City.

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for Legal