

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



IN THE MATTER OF THE
APPLICATION FOR APPROVAL OF
RATE ADJUSTMENT IN
ACCORDANCE WITH R.A. 9136, WITH
PRAYER FOR PROVISIONAL
AUTHORITY

ERC CASE NO. 2014-056 RC

BATANGAS II ELECTRIC
COOPERATIVE, INC. (BATELEC II),
Applicant.

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DOCKETED
Date: FEB 03 2015
By: MV

ORDER

On May 6, 2014, the Batangas II Electric Cooperative, Inc. (BATELEC II) filed an application for approval of its rate adjustment in accordance with R.A. 9136, with prayer for provisional authority.

In the said application, BATELEC II alleged, among others, the following:

THE APPLICANT

1. It is an electric cooperative duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office at Antipolo del Norte, Lipa City;
2. It is the holder of an exclusive franchise issued by the National Electrification Commission (NEC), to operate an electric light and power distribution service in the cities of Lipa and Tanauan, and the municipalities of Alitagtag, Balete, Cuenca, Laurel, Lobo, Mabini, Malvar, Mataas na Kahoy, Padre Garcia, Rosario, San Jose, San Juan, Taysan, Talisay and Tingloy, all in the Province of Batangas;

7. On October 4, 2010, the Commission rendered its Decision in the said application making permanent the rates provisionally approved and implemented by it starting March 2010;
8. After implementing the rates approved under the RSEC-WR, it found the same to be significantly deficient to allow it to achieve its mandate, as it continues to incur financial losses in its operations;
9. The insufficiency of said rates is brought about by major circumstances, among which are the following, to wit:
 - a. The classification of electric cooperatives and the standard initial tariff for each EC Group under the RSEC-WR deviates from the **principle of full recovery of prudent and reasonable economic costs incurred** because the rates set for each EC Group was not based on the actual costs of the particular electric cooperative, but on the median rate of a group of electric cooperatives. The standard initial tariff for Group G, to which BATELEC II belongs, yields lower revenue requirement compared to BATELEC II's approved existing rate or historical unbundled rates. The table below shows the comparison of its actual revenue generated from Distribution, Supply and Metering (DSM) Rates between 2008 (test year used for RSEC-WR) and 2012 (with the implementation of RSEC-WR):

Table 2: Comparison of Actual Revenue Generated from DSM

DSM	2008 (PhP)	2012 (PhP)
Distribution	449,136,231.78	209,167,219.29
Supply	82,374,846.24	103,988,460.07
Metering	53,138,831.82	100,567,187.61
TOTAL DSM	584,649,909.84	413,722,866.97
Provision for Reinvestment	104,947,246.00	
TOTAL DSM (net of Reinvestment)	479,702,663.84	413,722,866.97

As shown in the table above, after implementing the rates approved under the RSEC-WR, its revenue generated from DSM Rates decreased thus, insufficient to cover the current costs of operations, resulting in continuous financial losses;

- b. One of its large load customers, the PL Batangas Steel Corporation, with a peak demand and average monthly energy consumption of 20,779 kW and 6,515,828.53 kWh, respectively, discontinued its operations since September 2012. The energy and demand of said customer was included in the billing determinants utilized in the grouping of its RSEC-WR; and
- c. On August 7, 2010, the National Electrification Administration (NEA) approved its adoption of the new salary scale for mega-large electric cooperatives which it started implementing on January 1, 2011. Further, in compliance with Wage Order No. IVA-14 of the Department of Labor and Employment (DOLE) dated January 11, 2011, it implemented wage increase starting January 15, 2011. These salary increases were also not considered in the RSEC-WR;

LEGAL BASIS

10. The RSEC-WR, under Article 11.1 Exception From the Provisions of the Rules, provides, to wit:

“Where good cause appears, the Commission may allow the exception from any provision of these Rules, if such exception is found to be in public interest and is not contrary to any law, rules and regulations.”

11. Invoking the above provision of the RSEC-WR, it seeks the Commission’s approval for it to deviate from the methodology and timelines set in filing rate adjustment applications of on-grid electric cooperatives as embodied under the RSEC-WR and in its stead, submits the instant application for the approval of its proposed adjustment in rates adopting the principles provided under Republic Act No. 9136 and pertinent guidelines promulgated by the Commission for rate adjustment applications;

THE PROPOSED RATE ADJUSTMENT

12. In preparing the instant application, it used 2012 as test year and adopted the model computation and uniform filing requirements prescribed for electric distribution utilities;
13. However, the proposed rate adjustment follows the same customer segmentation prescribed under the RSEC-WR to avoid additional cost of re-programming its existing software used in its operations;
14. Likewise, it designed and presented its proposed rates in the same manner as the presentation of rates under the RSEC-WR where the Reinvestment Fund for Sustainable Expenditures (RFSC) is presented as a separate line item. On the other hand, the DSM rates are purely the cost of Payroll and Operations and Maintenance (O&M) less the other revenue items;
15. Presented below are its proposed rates and revenues, to wit:

Table 3. Proposed Rate and Revenue

Customer Segment		Rate Component	UNIT	Rate Proposal	Proposed Revenue	
Residential kWh Customers	253,324,107	Distribution Charge	PhP/kWh	0.5060	128,173,915	
	201,351	Supply Charge	PhP/kWh	0.7286	184,568,936	
		Metering Charge	PhP/meter/mo	5.0000	12,081,060	
		PhP/customer/month	PhP/kWh	0.4373	110,779,881	
		RFSC	PhP/kWh	0.3978	100,784,486	
	Total			-	536,388,277	
Low Voltage kWh Customers	132,208,601	Distribution Charge	PhP/kWh	0.1967	26,005,898	
	11,509	Supply Charge	PhP/cust/mo	76.3877	10,549,756	
		Metering Charge	PhP/meter/mo	50.8486	7,022,595	
		RFSC	PhP/kWh	0.3978	52,598,926	
	Total			-	96,177,174	
Higher Voltage kWh Customers	204,276,267	Distribution Charge	PhP/kW	16.5000	792,198	
	153	Distribution Charge	PhP/kWh	0.2070	42,278,025	
	48,012	Supply Charge	PhP/cust/mo	76.3877	140,248	
		Metering Charge	PhP/meter/mo	50.8486	93,358	
	RFSC	PhP/kWh	0.3978	81,270,902		
	Total			-	124,574,730	

16. The proposed rates will result to an adjustment of PhP0.1959/kWh on the over-all DSM rates and PhP0.0762/kWh on the RFSC. Presented below is the table of adjustments per customer segment:

Table 4. Comparison of Proposed and Existing Rates

Customer Segment	Rate Component	UNIT	Rate Proposal	Existing Rate	DIFFERENCE
Residential	Distribution Charge	PhP/kWh	0.5060	0.2748	0.2312
	Supply Charge	PhP/kWh	0.7286	0.4140	0.3146
	Metering Charge				
	PhP/customer/month	PhP/meter/mo	5.0000	5.0000	0.00
	PhP/kWh	PhP/kWh	0.4373	0.3460	0.0913
	RFSC	PhP/kWh	0.3978	0.3216	0.0762
Low Voltage	Distribution Charge	PhP/kWh	0.1967	0.3748	-0.1781
	Supply Charge	PhP/cust/mo	76.3877	59.7300	16.66
	Metering Charge	PhP/meter/mo	50.8486	54.9200	-4.07
	RFSC	PhP/kWh	0.3978	0.3216	0.0762
Higher Voltage	Distribution Charge	PhP/kW	16.5000	118.5500	-102.05
	Distribution Charge	PhP/kWh	0.2070	0.0000	0.2070
	Supply Charge	PhP/cust/mo	76.3877	59.7300	16.66
	Metering Charge	PhP/meter/mo	50.8486	54.9200	-4.07
	RFSC	PhP/kWh	0.3978	0.3216	0.0762

17. The cost components of its proposed rates are presented below, as follows:

Table 5. Summary of Proposed Revenue Requirement per Cost Component

COST COMPONENT	AMOUNT (PhP)
Payroll	230,296,429
Operations & Maintenance	316,171,074
Subtotal	546,467,503
Less: Other Revenue Items	23,964,501
Total Revenue Requirement for DSM	522,503,002
Reinvestment Fund	234,654,313
Total Revenue Requirement (with RF)	757,157,315

Explanations on the cost components presented above are as follows, to wit:

17.a Payroll

The payroll represents the basic salary of existing employees including the employer's share for SSS, PhilHealth, PAG-IBIG, and 13th Month Pay. The adjustment represents the normalization of the salary increase that was implemented starting January 2011.

17.b Operations and Maintenance

The amount of PhP316,171,074.00 represents the actual operations and maintenance expenses incurred based on audited financial statements for year 2012. Expenses related to distribution operations, consumer and information expenses and administrative and general expenses are included.

17.c 5% RFSC

The 5% reinvestment fund is computed using the prescribed formula in the determination of reinvestment fund to finance the rehabilitation and upgrading of the existing electric distribution system.

17.d Other Revenue Item (ORI)

The Other Operating Revenues represent reconnection fees, replacement fees, calibration fees, dismantling fees, installation fees, inspection fees, interruption fees, fees on transfer of meter/service drop, fees on relocation and termination of meter, pole rental, transformer rental and other electric-related revenues.

OTHER CONSIDERATIONS

18. **Lifeline Rate and Level.** It will maintain the current graduated scale for marginalized residential consumers to be applied to Generation, Transmission, System Loss and Distribution, Supply and Metering Charges;

19. **Tingloy Island Rates.** Its franchise area includes the Tingloy Island being served by the NPC-SPUG. The distribution revenue requirement for the operation of the

Tingloy Island was included in its unbundling rate application. It will apply the same rates in the Island and Mainland for DSM and Reinvestment Fund specified for each customer segment. However, the Generation Charge and Systems Loss Charge shall be based on NPC-SPUG rates;

20. **Other Charges.** It will continue to implement the existing Other Charges under its approved 2004 unbundled rates (ERC Case No. 2001-902) and likewise adopt the charges imposed under R.A. 7832 otherwise known as the Anti-Pilferage Act.

SUPPORTING DATA AND DOCUMENTS

21. In support of all foregoing allegations, it is submitting herewith the following data and documents, which are being made integral parts hereof, as follows:

Annex	Nature of Document
E	Book I: <ul style="list-style-type: none"> ➤ 2012 Audited Financial Statements ➤ 2012 Audited Trial Balance ➤ Section B of 2012 Monthly Financial & Statistical Report ➤ UFR Model Without Reinvestment Fund ➤ Reinvestment Fund Computation
F	Book II: <ul style="list-style-type: none"> ➤ Detailed Schedule of Expenses
G	Book III: Schedule 1 - Supporting Schedules on Payroll Allocation
	Schedule 2 – Details of Other Revenue Items
	Schedule 3 – Other Charges
H	NEA Approval on BATELEC II’s adoption of the New Salary Scale for Mega Large Cooperatives
H- 1	Wage Orders implemented
I	Audited Profit and Loss Statement –December 31, 2012
J	Power Bills and Payments to Power Suppliers
K	Rate Schedule – December 31, 2012 Billing
M	Other Pertinent Documents

PRAYER FOR PROVISIONAL AUTHORITY

22. As indicated in Paragraphs 8 and 9 above, it has been incurring heavy losses in its operations due to the deficiency in its operating, maintenance and capital expenditure funds, and only an increase in its rates would allow it to viably pursue and sustain its operations;
23. In view thereof, it prays for the issuance of a provisional authority, allowing it to implement the rates proposed in the instant application immediately upon filing and initial evaluation hereof and while the case is pending evaluation, to enable it to viably pursue and sustain its operations;

COMPLIANCE WITH PRE-FILING REQUIREMENTS

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

Annex	Nature of Document
A	BATELEC II Board Resolution No. 089 series of 2013 authorizing the filing of the application;
B	Judicial Affidavit in Support of the Prayer for Provisional Authority;
C	Proof of furnishing copies of the application to the Sangguniang Panlungsod of Lipa and Sangguniang Panlalawigan of Batangas; and
D	Publication of the Application in a newspaper of general circulation in BATELEC II's franchise area or where it principally operates, with Affidavit of Publication; and

25. It prays that upon initial evaluation of this application and while the case is pending, it be allowed to implement the proposed rates presented hereunder, and after due notice and hearing, the proposed rate schedule be approved, as follows:

Customer Segment	Rate Component	UNIT	Rate Proposal
Residential	Distribution Charge	PhP/kWh	0.5060
	Supply Charge	PhP/kWh	0.7286
	Metering Charge		
	PhP/customer/month	PhP/meter/mo	5.0000
	PhP/kWh	PhP/kWh	0.4373
	RFSC	PhP/kWh	0.3978
Low Voltage	Distribution Charge	PhP/kWh	0.1967
	Supply Charge	PhP/cust/mo	76.3877
	Metering Charge	PhP/meter/mo	50.8486
	RFSC	PhP/kWh	0.3978
Higher Voltage	Distribution Charge	PhP/kW	16.5000
	Distribution Charge	PhP/kWh	0.2070
	Supply Charge	PhP/cust/mo	76.3877
	Metering Charge	PhP/meter/mo	50.8486
	RFSC	PhP/kWh	0.3978

Finding the said application to be sufficient in form and in substance with the required fees having been paid, the same is hereby set for initial hearing, expository presentation, pre-trial conference and evidentiary hearing on **March 4, 2015 (Wednesday) at ten o'clock in the morning (10:00 A.M.) at the BATELEC II Main Office, Antipolo del Norte, Lipa City, Batangas.**

BATELEC II is hereby directed to cause the publication of the attached Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines, with the date of the last publication to be made not later than ten (10) days before the date of the scheduled initial hearing. It is also directed to inform the consumers within its franchise area, by any other means available and appropriate, of the filing of the instant application, its reasons therefor, and of the scheduled hearing thereon.

Let copies of the application, this Order and the attached Notice of Public Hearing be furnished the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire, to send their duly authorized representatives at the scheduled hearing.

Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished the Offices of the Governor of Batangas and the Mayors of the Cities/Municipalities within BATELEC II's franchise area for the appropriate posting thereof on their respective bulletin boards.

BATELEC II is hereby directed to furnish all those making requests therefor with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, BATELEC II must submit to the Commission its written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidences on the actual posting and publication of the Notice of Public Hearing consisting of certifications issued to that effect, signed by the afore-mentioned Governors and Mayors or their duly authorized representatives, bearing the seals of their offices, and the affidavits of the Editors or Business Managers of the newspapers where the said Notice of Public Hearing were published together with the complete issues of the said newspapers, and such other proofs of compliance with the requirements of the Commission.

BATELEC II and all interested parties are directed to submit, at least five (5) days before the date of initial hearing and pre-trial conference, their respective Pre-trial Briefs containing, among others:

- a) A summary of admitted facts and proposed stipulation of facts;
- b) The issues to be tried or resolved;
- c) The documents or exhibits to be presented, stating the purposes and proposed markings therefore; and
- d) The number and names of the witnesses, with their written testimonies in an individual affidavit form, to be attached to the Pre-trial Brief.

Failure of BATELEC II to submit the required Pre-trial Brief and Judicial Affidavits of its witnesses 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 said date of cancellation.

As part of the pre-trial conference, BATELEC II must also be prepared to make an expository presentation of its application, aided by whatever communication medium that it may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the application is all about and the reasons and justifications being cited in support thereof.

SO ORDERED.

Pasig City, January 26, 2015.

FOR AND BY AUTHORITY
OF THE COMMISSION:


ZENAIDA G. CRUZ-DUCUT
Chairperson 4

Copy Furnished:

1. **LERIOS-AMBOY PINGOL & GONZALES LAW OFFICE**
Counsel for Applicant BATELEC II
Units 1609-1610, Tycoon Centre
Pearl Drive, Ortigas Center, Pasig City 1605
2. **BATANGAS II ELECTRIC COOPERATIVE, INC. (BATELEC II)**
Antipolo del Norte, Lipa City, Batangas
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
Metro Manila
6. **House Committee on Energy**
Batasan Hills, Quezon City, Metro Manila
7. **Office of the President**
Philippine Chamber of Commerce and Industry (PCCI)
3rd Floor, Chamber and Industry Plaza (CIP)
1030 Campus Avenue corner Park Avenue
McKinley Town Center, Fort Bonifacio, Taguig City
8. **Office of the City Mayor**
Lipa City, Batangas
9. **Office of the City Mayor**
Tanauan City, Batangas
10. **Office of the Municipal Mayor**
Alitagtag, Batangas
11. **Office of the Municipal Mayor**
Balete, Batangas
12. **Office of the Municipal Mayor**
Cuenca, Batangas

- 13. Office of the Municipal Mayor
Laurel, Batangas**
- 14. Office of the Municipal Mayor
Lobo, Batangas**
- 15. Office of the Municipal Mayor
Mabini, Batangas**
- 16. Office of the Municipal Mayor
Malvar, Batangas**
- 17. Office of the Municipal Mayor
Mataas na Kahoy, Batangas**
- 18. Office of the Municipal Mayor
Padre Garcia, Batangas**
- 19. Office of the Municipal Mayor
Rosario, Batangas**
- 20. Office of the Municipal Mayor
San Jose, Batangas**
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San Juan, Batangas**
- 22. Office of the Municipal Mayor
Talisay, Batangas**
- 23. Office of the Municipal Mayor
Taysan, Batangas**
- 24. Office of the Municipal Mayor
Tingloy, Batangas**
- 25. Office of the Governor
Province of Batangas**