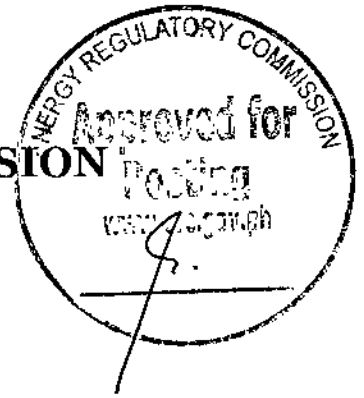


Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF
ADJUSTMENT IN RATES
PURSUANT TO THE
TARIFF GLIDE PATH (TGP)
RULES, WITH PRAYER
FOR PROVISIONAL
AUTHORITY,**

ERC CASE NO. 2015-109 RC

**NEGROS ORIENTAL II
ELECTRIC COOPERATIVE,
INC. (NORECO II),**

Applicant.

X-----X

D O C K E T E D
Date: JAN 30 2017
By: [Signature]

O R D E R

On 2 June 2015, Negros Oriental II Electric Cooperative, Inc. (NORECO II) filed an *Application* seeking the Commission's approval of the adjustment in its rates pursuant to the Tariff Glide Path (TGP) Rules, with prayer for provisional authority.

NORECO II alleged the following in its *Application*:

THE APPLICANT

1. NORECO II is a non-stock, non-profit electric cooperative duly organized and existing under and by virtue of Philippine laws, with principal office at Real St., Dumaguete City;
2. NORECO II holds an exclusive franchise from the National Electrification Commission, to operate an electric light and power distribution service in the cities of Bayawan, Tanjay and Dumaguete, and eleven (11) municipalities of the province of Negros Oriental, namely:

Amlan, Bacong, Basay, Dauin, Pamplona, San Jose, Siaton, Sibulan, Sta. Catalina, Valencia and Zamboanguita;

THE ANTECEDENT RULES AND FACTS

3. In 2009, the Commission promulgated the Rules for Setting the Electric Cooperatives' Wheeling Rates (RSEC-WR);
4. The RSEC-WR envisioned a regulatory framework whereby an Initial Tariff and a Tariff Glide Path shall be developed for each Electric Cooperative (EC) Group for a Regulatory Period;
5. In the same year, NORECO II filed with the Commission an application for approval of its proposed adjustment in rates pursuant to the RSEC-WR, docketed as ERC Case No. 2009-091 RC;
6. In the said application, the Commission granted NORECO II provisional authority to implement the following initial tariffs on its Distribution, Supply and Metering (DSM) Charges, among others, to wit:

CHARGES	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			219.68
Distribution System Charge	PhP/kWh	0.5782	0.7595	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		42.92	42.92
Supply System Charge	PhP/kWh	0.6001		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo	5.00	35.94	35.94
Metering System Charge	PhP/kWh	0.4326		

7. Article 7 of the RSEC-WR provides that during the regulatory period, the rate of the ECs per group shall be adjusted using the following formula, to wit:

Tariff x (1+ index "I"-Efficiency Factor "X" + Performance Incentive "S")

The Index "I", shall be an escalation factor to be used in adjusting the rates to reflect the combined impact of

inflation and load factor. There shall be an efficiency factor "X" to account for the operational efficiency of the ECs in setting their rates. There shall be a performance incentive "S" which shall reward or penalize the EC for above or below standard performance, respectively.

The TGP is intended as a cap and the EC may move up to the cap, if it is a positive adjustment. If the cap is lower than the current average tariff, a reduction may be implemented.;

LEGAL BASIS FOR THE APPLICATION

8. On May 2, 2011, the Commission promulgated the Tariff Glide Path (TGP) Rules pursuant to Article 7 of the RSEC-WR;
9. The TGP is a rate adjustment mechanism which provides an opportunity for the ECs to adjust their rates once every three (3) years. The rate adjustments may occur at the start of the fourth year of the first Regulatory Period and every three years thereafter;
10. Under the TGP, the regulatory period is six (6) years for each entry Group. For the Third Entrant Group, the first regulatory period is from January 1, 2013 to December 31, 2018. NORECO II belongs to the Third Entrant Group;
11. Further, under the TGP Rules, the concerned EC shall use the following formula in determining the TGP for the first to third years of the Regulatory Period, to wit:

$$TGP_A = TGP_n + TGP_{n+1} + TGP_{n+2} \text{ where}$$

$$TGP_n = I_n - X_n + S_n$$

N= the first year of the Regulatory Period and succeeding Regulatory Periods

Except that for the first two years of the First Regulatory Period, "X" will be equal to zero and thereafter shall not be less than zero. The TGP calculated for each of the three years will be summed to determine the possible rate adjustment the starting on the Fourth Year of the current Regulatory Period.

THE PROPOSED RATE ADJUSTMENT

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

	"I"	"X"	"S"	TGP A	TGP A (Excluding "S")
Year 2013	6.55%	0.00%	0.40%	6.95%	6.55%
Year 2014	0.00%	0.00%	0.40%	0.40%	0.00%
Year 2015	1.78%	0.00%	0.40%	2.18%	1.78%
Net Results				9.53%	8.33%

13. Applying the above values resulted in adjustments on NORECO II's DSM Rates, as follows:

a) WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			240.61
Distribution System Charge	PhP/kWh	0.6333	0.8319	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		47.01	47.01
Supply System Charge	PhP/kWh	0.6573		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.48	39.36	39.36
Metering System Charge	PhP/kWh	0.4738		

b) EXCLUDING PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			237.97
Distribution System Charge	PhP/kWh	0.6264	0.8227	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		46.49	46.49
Supply System Charge	PhP/kWh	0.6501		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.42	38.93	38.93
Metering System Charge	PhP/kWh	0.4686		

14. Consequently, NORECO II respectfully prays for the approval of the foregoing calculated DSM rates;

SUPPORTING DATA AND DOCUMENTS

15. In support of the foregoing computations, NORECO II is submitting the following data and documents, which are being made integral parts of the Application, to wit:

Annex	Nature of Document
A A-2 A-3	Proposed TGP calculation and supporting documents using the prescribed templates: Index "I" Calculation Efficiency Factor "X" Calculation Performance Incentive "S" Calculation
B	Monthly Financial and Statistical Report (MFSR) – Sections B and E (2010-2014)
C	Billing Determinants Template (kWh Sales, Number of Customers, kW Demand) (2010 -2014)
D	Sample Bills (per customer type) (2010 -2014)
E	Regional CPI (2011 -2014)
F	RFSC/Reinvestment Fund Utilization (2012-2014)
G	Consumer Complaints (Summary or Tracking Form) (2012- 2014)
H	Audited Financial Statements (2010 -2014)

ALLEGATIONS IN SUPPORT OF THE PRAYER FOR PROVISIONAL AUTHORITY

16. NORECO II repleads the foregoing allegations as may be material herein;
17. NORECO II's current DSM rates were granted by the Commission provisionally and in tranches starting in January 2010 by virtue of the RSEC-WR;
18. Over the years, the cost of NORECO II's operations has significantly increased, not only as a logical effect of inflation as well as certain governmental requirements, but likewise due to the inevitable expansion of its distribution network brought about by the extension of its services to remote areas. More significantly, NORECO II has been implementing the Sitio Electrification Program (SEP) of President Benigno Simeon C. Aquino III, such that the massive expansion of its distribution lines up to the remotest areas has considerably increased its operational and maintenance costs, not to mention the increased

system loss which NORECO II is likely to absorb. All these costs were not duly provided for in its current rates and the general funds being generated from its DSM revenues as granted under the RSEC-WR are no longer sufficient to cover these inevitable costs;

19. Thus, NORECO II urgently needs additional funds to be able to cope with the rising costs of its operations;
20. Further, based on the provisions of the TGP Rules, for cooperatives belonging to the Third Entrant Group, their initial tariffs shall be adjusted at the start of the fourth regulatory year of the First Regulatory Period, which is January 1, 2016;
21. Considering the foregoing, NORECO II prays that while the instant application is pending, it be granted a provisional authority to implement the proposed rates effective January 1, 2016;

COMPLIANCE WITH PRE-FILING REQUIREMENTS

22. Finally, in compliance with the ERC Rules of Practice and Procedure, NORECO II is likewise submitting the following documents, which are being made integral parts of the Application, to wit:

Annex	Nature of Document
I	Affidavit in Support of the Prayer for Provisional Authority
J to J-2	Proof of furnishing copies of the Application to the Sangguniang Panlungsod of Dumaguete City and Sangguniang Panlalawigan of Negros Oriental
K to K-2	Proof of publication of the Application in a newspaper of general circulation in NORECO II's franchise area or where it principally operates

23. NORECO II respectfully prays that pending evaluation of the instant Application or after due notice and hearing, as the case may be, NORECO 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 1, 2016, to wit:

A) WITH PERFORMANCE INCENTIVE “S”

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/Kw			240.61
Distribution System Charge	PhP/kWh	0.6333	0.8319	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		47.01	47.01
Supply System Charge	PhP/kWh	0.6573		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.48	39.36	39.36
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B) EXCLUDING PERFORMANCE INCENTIVE “S”

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
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Demand Charge	PhP/kW			237.97
Distribution System Charge	PhP/kWh	0.6264	0.8227	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		46.49	46.49
Supply System Charge	PhP/kWh	0.6501		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.42	38.93	38.93
Metering System Charge	PhP/kWh	0.4686		

Finding the said *Application* sufficient in substance with the required fees having been paid, the same is hereby set for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **22 March 2017 (Wednesday) at nine o'clock in the morning (9:00 A.M.)**, at NORECO II's principal office at **Real St., Dumaguete City**.

Accordingly, NORECO II is hereby directed to:

- 1) Cause the publication of the attached Notice of Public Hearing in two (2) newspapers of nationwide circulation in the Philippines at their own expense, twice (2x) within two

- (2) successive weeks, the dates of publication not being less than seven (7) days apart and the date of the last publication to be made not later than ten (10) days before the date of the scheduled initial hearing;
- 2) Furnish with copies of this Order and the attached Notice of Public Hearing the Offices of the Provincial Governors, the City and Municipal Mayors, and the Local Government Unit (LGU) legislative bodies within the affected franchise area for the appropriate posting thereof on their respective bulletin boards;
 - 3) Inform of the filing of the *Application*, the reasons therefor, and of the scheduled hearing thereon, the consumers within the affected franchise area, by any other means available and appropriate;
 - 4) Furnish with copies of this Order and the attached Notice of Public Hearing, the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire to send their duly authorized representatives at the scheduled hearing; and
 - 5) Furnish with copies of the *Application* and the attachments all those making requests therefor, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, Applicant must submit to the Commission their written compliance with the aforementioned jurisdictional requirements attaching therewith, methodically arranged and duly marked the following:

- 1) The evidence of publication of the attached Notice of Public Hearing consisting of affidavits of the Editors or Business Managers of the newspapers where the said Notice of Public Hearing was published, and the complete issues of the said newspapers;
- 2) The evidence of actual posting of this Order and the attached Notice of Public Hearing consisting of certifications issued to that effect, signed by the aforementioned Governors, Mayors, and LGU legislative bodies or their duly authorized representatives, bearing the seals of their offices;

- 3) The evidence of other means employed by Applicant to inform of the filing of the *Application*, the reasons therefore, and of the scheduled hearing thereon, the consumers within the affected franchise area;
- 4) The evidence of receipt of copies of this Order and the attached Notice of Public Hearing by the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress;
- 5) The evidence of receipt of copies of the *Application*, and the attachments by all those making requests therefor, if any; and
- 6) Such other proofs of compliance with the requirements of the Commission.

Applicant and all interested parties are also required 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:

- 1) A summary of admitted facts and proposed stipulation of facts;
- 2) The issues to be tried or resolved;
- 3) The documents or exhibits to be presented, stating the purposes and proposed markings therefore; and
- 4) The number and names of the witnesses, with their written testimonies in a Judicial Affidavit form attached to the Pre-trial Brief.

Failure of Applicant to comply with the above requirements within the prescribed period shall be a ground for cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from the said date of cancellation.

NORECO II must also be prepared to make an expository presentation of the instant *Application* aided by whatever communication medium that they 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, 23 January 2017.

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSE VICENTE B. SALAZAR
Chairman

ERC
Office of the Chairman



A-2017-023-OC-08213

eng rcc Ad

ERC CASE NO. 2015-109 RC
ORDER/23 January 2017
Page 11 of 12

Copy Furnished:

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Pearl Drive, Ortigas Center, Pasig City 1605
2. Negros II Electric Cooperative, Incorporated (NORECO II)
Real St., Dumaguete City
3. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village, Makati City
4. Office of the Commission on Audit
Don Mariano Marcos Avenue, Diliman, Quezon City
5. The Committee On Energy
Senate of the Philippines
GSIS Building, Roxas Blvd., Pasay City
6. The Committee On Energy
House of Representatives
Batasan Hills, Quezon City
7. Office of the City Mayor
City of Bayawan, Negros Oriental
8. Office of the Local Government Unit (LGU) legislative body
City of Bayawan, Negros Oriental
9. Office of the City Mayor
City of Tanjay, Negros Oriental
10. Office of the Local Government Unit (LGU) legislative body
City of Tanjay, Negros Oriental
11. Office of the City Mayor
Dumaguete, Negros Oriental
12. Office of the Local Government Unit (LGU) legislative body
Dumaguete, Negros Oriental
13. Office of the Municipal Mayor
Amlan, Negros Oriental
14. Office of the Local Government Unit (LGU) legislative body
Amlan, Negros Oriental
15. Office of the Municipal Mayor
Bacong, Negros Oriental
16. Office of the Local Government Unit (LGU) legislative body
Bacong, Negros Oriental
17. Office of the Municipal Mayor
Basay, Negros Oriental
18. Office of the Local Government Unit (LGU) legislative body
Basay, Negros Oriental
19. Office of the Municipal Mayor
Dauin, Negros Oriental

20. Office of the Local Government Unit (LGU) legislative body
Dauin, Negros Oriental
21. Office of the Municipal Mayor
Pamplona, Negros Oriental
22. Office of the Local Government Unit (LGU) legislative body
Pamplona, Negros Oriental
23. Office of the Municipal Mayor
San Jose, Negros Oriental
24. Office of the Local Government Unit (LGU) legislative body
San Jose, Negros Oriental
25. Office of the Municipal Mayor
Siaton, Negros Oriental
26. Office of the Local Government Unit (LGU) legislative body
Siaton, Negros Oriental
27. Office of the Municipal Mayor
Sibulan, Negros Oriental
28. Office of the Local Government Unit (LGU) legislative body
Sibulan, Negros Oriental
29. Office of the Municipal Mayor
Sta. Catalina, Negros Oriental
30. Office of the Local Government Unit (LGU) legislative body
Sta. Catalina, Negros Oriental
31. Office of the Municipal Mayor
Valencia, Negros Oriental
32. Office of the Local Government Unit (LGU) legislative body
Valencia, Negros Oriental
33. Office of the Municipal Mayor
Zamboanguita, Negros Oriental
34. Office of the Local Government Unit (LGU) legislative body
Zamboanguita, Negros Oriental
35. Office of the Governor
Province of Negros Oriental
36. Office of the Local Government Unit (LGU) legislative body
Province of Negros Oriental
37. 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
38. Regulatory Operations Service (ROS)
Energy Regulatory Commission
17th Floor, Pacific Center, San Miguel Avenue, Pasig City