

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



**IN THE MATTER OF THE
APPLICATION FOR THE
APPROVAL OF THE TARIFF
RATE ADJUSTMENT IN
ACCORDANCE WITH THE
RULES FOR SETTING THE
ELECTRIC COOPERATIVES
WHEELING RATES (RSEC-
WR), WITH PRAYER FOR
PROVISIONAL AUTHORITY,**

ERC CASE NO. 2015 -085 RC

**NORTHERN NEGROS
ELECTRIC COOPERATIVE,
INC. (NONECO),**

Applicant.

X-----X

D O C K E T E D
Date: **FEB 03 2017**
By: **M**

ORDER

On 30 April 2015, Northern Negros Electric Cooperative, Inc. (NONECO) filed an Application seeking the Commission's approval of its tariff rate adjustment in accordance with the Rules for Setting the Electric Cooperatives Wheeling Rates (RSEC-WR), with prayer for a provisional authority.

NONECO alleged the following in its Application:

1. Applicant is an electric cooperative duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office address at Barangay Tortosa, Manapla, Negros Occidental. It has an exclusive franchise to distribute electric service in the cities of Victorias, Cadiz, Sagay, Escalante, San Carlos and the municipality of E.B. Magalona, Manapla, Toboso and Calatrava, all in the province of Negros Occidental. It may be served with notices and other processes of this Honorable Commission through its counsel at the address indicated herein.
2. Section 25 of the Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), provides that the retail rates charged by the Distribution Utilities (DUs) for the supply of their electricity in their captive market shall be subject to regulation by the Energy Regulatory Commission (ERC) based on the principle of full recovery of prudent and reasonable economic

costs incurred or such other principles that will promote efficiency as may be determined by this Honorable Commission.

3. On 23 September 2009, the Honorable Commission promulgated its Resolution No. 20, Series of 2009, entitled, "*A Resolution Adopting the Rules for Setting the Electric Cooperative's Wheeling Rates.*"¹ The said Rules embodied the new regulatory framework for Electric Cooperative ("EC") such as herein Applicant, and is designed to develop a more responsive tariff setting methodology for EC, encourage reforms in the structure and operations of ECs for greater efficiency and lower costs, and introduces a framework that allows efficiency gains to be shared between the EC and the end-users.

4. As part of the new regulatory framework introduced by the RSEC-WR is the concept of the Tariff Glide Path ("TGP"). Article VII of the RSEC-WR provides for a Tariff Glide Path whereby, during a Regulatory Period, EC may file for a rate adjustment using the formula and parameters provided by the Honorable Commission. Accordingly, for the TGP to be fully implemented, the ERC, in consultation with the stakeholders, promulgated Resolution No. 08, Series of 2011, entitled "*A Resolution Adopting the Rules Governing the Tariff Glide Path Pursuant to Article VII of the Rules for Setting the Electric Cooperative's Wheeling Rates.*"² Under said Rules, the EC may file before the Honorable Commission for a rate adjustment of the initial tariff caps in accordance thereof. Basically, TGP is considered as a cap, where EC may ask for positive rate adjustment (up to the cap), or a reduction in current rate if the cap is lower than the current average tariff.³

5. Upon implementation of RSEC-WR, there had been a migration from the EC's Current Tariff Structure to a New Tariff Structure. Notably, prior to RSEC-WR, the ECs charges are composed of Distribution, Supply and Metering (DSM) which were determined using its operation and maintenance expenses, capital expenditures and debt service. However, in the tariff structure under the RSEC-WR, there was unbundling of operating costs into (1) Distribution, Supply and Metering Charges (DSM); and (2) Member's Contribution for Capital Expenditures (MCC) which would be allocated for EC's debt servicing and its capital expenditures requirements.

6. In the implementation of the new tariff structure, the ECs were classified into seven (7) groups using set of variables as provided in the same Rules. Each group was then assigned an Initial Tariff Cap composed of: (1) Distribution, Supply and Metering Rate Caps or DSM Rate; and (2) Member's Contribution for Capital Expenditure Rate Cap or Capital Expenditure Rate. The said Initial Tariff Cap is subject to adjustments in accordance with the TGP Rules. Below, are the Initial Tariff set by this Honorable Commission for each group of EC:

¹ Also known as the RSEC-WR.

² Also known as the TGP Rules.

³ Article 7, RSEC-WR.

	Operating Revenue Requirement (ORR) (Distribution, Supply, Metering)	Member's Contribution for Capital Expenditure
Group A	2.420000	0.5324
Group B	1.820000	0.4004
Group C	1.680000	0.3696
Group D	1.140000	0.2508
Group E	1.320000	0.2904
Group F	0.990000	0.2178
Group G	0.690000	0.1518

7. Applicant NONECO was classified under Group E with an Initial Tariff Cap for DSM and MCC of Php1.32 and Phpo.2904, respectively.

8. In a Decision issued by this Honorable Commission, Applicant NONECO was authorized to implement the following initial DSM rates:

	Residential	Low Voltage	Higher Voltage
Distribution Charges: Demand Charge (PhP/kW) Distribution System Charge (PhP/kWh)	0.5782	0.7595	219.68
Supply Charges: Retail Customer Charge (PhP/Cust/Month) Supply System Charge (PhP/kWh)	0.6001	42.92	42.92
Metering Charges: Retail Customer Charge (PhP/Meter/Month) Metering System Charge (PhP/kWh)	5.0000 0.4326	35.94	35.94

9. Thus, herein Applicant files the instant Application seeking for an adjustment in the tariff rate pursuant to Article VII of RSEC-WR and TGP Rules.

10. Basically, Applicant's Tariff Glide Path was computed in accordance with the formula provided in Article VII of the RSEC-WR, to wit:

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

While Index "I" pertains to escalation factor to be used in adjusting the rates to reflect current costs, the Efficiency Factor "X" provides for the sharing of the EC's efficiency with the member-consumers. Meanwhile, Performance Incentive "S" is intended as a

reward or punishment for the EC for above and below performance, respectively.

11. Using the above formula, Applicant NONECO determined its TGP as follows:

TGP Including "S"

	Residential	Low Voltage	Higher Voltage
Distribution Charges: Demand Charge (PhP/kW) Distribution System Charge (PhP/kWh)	0.6420	0.8432	243.90
Supply Charges: Retail Customer Charge (PhP/Cust/Month) Supply System Charge (PhP/kWh)	0.6663	47.65	47.65
Metering Charges: Retail Customer Charge (PhP/Meter/Month) Metering System Charge (PhP/kWh)	5.5513 0.4803	39.90	39.90

TGP Excluding "S"

	Residential	Low Voltage	Higher Voltage
Distribution Charges: Demand Charge (PhP/kW) Distribution System Charge (PhP/kWh)	0.6287	0.8258	238.85
Supply Charges: Retail Customer Charge (PhP/Cust/Month) Supply System Charge (PhP/kWh)	0.6525	46.67	46.67
Metering Charges: Retail Customer Charge (PhP/Meter/Month) Metering System Charge (PhP/kWh)	5.4363 0.4703	39.08	39.08

12. As mentioned earlier, TGP served as a cap on the adjustments. Relative thereto, EC may adjust its initial tariff either by increasing or moving up to the cap in case of positive adjustments, or reduce its tariff if the TGP is lower than the current average tariff. Notably, Applicant NONECO's computation of its Tariff Glide Path resulted in a positive adjustment. Accordingly, herein Applicant will be seeking to implement adjustments on its tariff rates accordingly up to the cap.

13. In the event the Honorable Commission approves the instant Application, there would be an increase in the current DSM being collected from Applicant's member-consumers. Below are the tables showing the summary of the existing tariff and the proposed rate per customer class:

Residential Customers

	Existing	Proposed Rate	
		With "S"	Without "S"
Distribution Charges:			
Demand Charge (PhP/kW)			
Distribution System Charge (PhP/kWh)	0.5782	0.6420	0.6287
Supply Charges:			
Retail Customer Charge (PhP/Cust/Month)	0.6001	0.6663	0.6525
Supply System Charge (PhP/kWh)			
Metering Charges:			
Retail Customer Charge (PhP/Meter/Month)	5.000	5.5513	5.4363
Metering System Charge (PhP/kWh)	0.4326	0.4803	0.4703

Low Voltage Customers

	Existing	Proposed Rate	
		With "S"	Without "S"
Distribution Charges:			
Demand Charge (PhP/kW)			
Distribution System Charge (PhP/kWh)	0.7595	0.8432	0.8258
Supply Charges:			
Retail Customer Charge (PhP/Cust/Month)	42.92	47.65	46.67
Supply System Charge (PhP/kWh)			
Metering Charges:			
Retail Customer Charge (PhP/Meter/Month)	35.94	39.90	39.08
Metering System Charge (PhP/kWh)			

Higher Voltage Customers

	Existing	Proposed Rate	
		With "S"	Without "S"
Distribution Charges:			
Demand Charge (PhP/kW)	219.68	243.90	238.85
Distribution System Charge (PhP/kWh)			
Supply Charges:			
Retail Customer Charge (PhP/Cust/Month)	42.92	47.65	46.67
Supply System Charge (PhP/kWh)			
Metering Charges:			
Retail Customer Charge (PhP/Meter/Month)	35.94	39.90	39.08
Metering System Charge (PhP/kWh)			

14. The applicant's DSM rates were granted by the Honorable Commission way back in January 2010 and over the years, the cost of its operations has significantly increased, not only as a logical

effect of inflation and governmental requirements but as well as the subsequent effect of Super typhoon "Yolanda" that hit the coverage area which used up the coop's general fund. Currently, the LGUs are on its last phase in the processing of housing relocation projects for "Yolanda" victims and the expected number of houses is 20,000 with an extended lines because of the target locations in the remote places. More significantly, the cooperative has been implementing the Sitio Energization Program (SEP) and Barangay Line Enhancement Projects (BLEP) since year 2011 and this massive expansion of distribution lines and facilities up to the remotest and far-flung areas has considerably increased our operations and maintenance costs and likewise resulted to increased system loss which the cooperative is likely to absorb. The Department of Public Works and Highways' (DPWH) requests for facility relocations due to road expansions are generally unexpected and unplanned which electric cooperative such as Applicant cannot include in the capex and thus will be absorbed also by the cooperative.

15. In addition to the foregoing, for Applicant NONECO to improve further its services to its consumers by providing the necessary logistics and adequate manpower resources so as to ensure power reliability within its franchise area, it is urgent that a provisional authority to implement the rate adjustments under this Application be immediately issued pending hearing of the instant Application;

16. In support of the instant Application and the prayer for the issuance of provisional authority, attached hereto as ANNEX "B" and made integral part hereof is the Judicial Affidavit of PAULINO G. ALMEDILLA, Manager of Corporate Planning Department of the Applicant.

PRAYER

WHEREFORE, it is respectfully prayed to this Honorable Commission that pending hearing of the instant Application, a provisional authority be issued authorizing Applicant to adjust its rates up to the cap and to accordingly implement the adjustment starting January 2016 as follows:

TGP including "S"

	Residential	Low Voltage	High Voltage
Distribution Charges: Demand Charge (PhP/kW) Distribution System Charge (PhP/kWh)	0.6420	0.8432	243.90
Supply Charges: Retail Customer Charge (PhP/Cust/Month) Supply System Charge (PhP/kWh)	0.6663	47.65	47.65
Metering Charges: Retail Customer Charge (PhP/Meter/Month)	5.5513 0.4803	39.90	39.90

Metering System Charge (PhP/kWh)			
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TGP excluding "S"

	Residential	Low Voltage	High Voltage
Distribution Charges: Demand Charge (PhP/kW) Distribution System Charge (PhP/kWh)	0.6287	0.8258	238.85
Supply Charges: Retail Customer Charge (PhP/Cust/Month) Supply System Charge (PhP/kWh)	0.6525	46.67	46.67
Metering Charges: Retail Customer Charge (PhP/Meter/Month) Metering System Charge (PhP/kWh)	5.4363 0.4703	39.08	39.08

Further, it is likewise prayed that after trial and hearing, a DECISION be rendered PERMANENTLY APPROVING the adjustments in rates under the instant Application.

Applicant prays for such other relief just and equitable under the premises.

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 **23 March 2017 at nine o'clock in the morning (9:00 A.M.), at NONECO's principal office at Brgy. Tortosa, Manapla, Negros Occidental.**

Accordingly, NONECO 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, its 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 its 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, its 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 its 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.

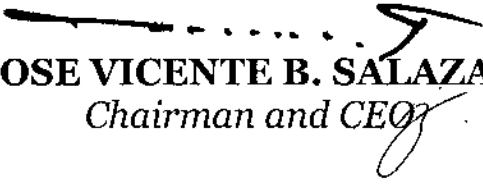
NONECO must also be prepared to make an expository presentation of the instant Application, aided by whatever communication medium that they may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the Application is all about and the reasons and justifications being cited in support thereof.

SO ORDERED.

Pasig City, 30 January 2017.



FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSE VICENTE B. SALAZAR
Chairman and CEO


LS: SLN/ARG/PAR/APV

COPY FURNISHED:

1. Northern Negros Electric Cooperative, Inc. (NONECO)
Applicant
Brgy. Tortosa, Manapla, Negros Occidental
2. Atty. Irish Mae V. Rodriguez
Counsel for Applicant
c/o NONECO Building, Crossing Tortosa,
Barangay Tortosa, Manapla, Negros Occidental
3. Office of the Mayor
Victorias City, Negros Occidental
4. Office of the LGU legislative body
Victorias City, Negros Occidental
5. Office of the Mayor
Cadiz City, Negros Occidental
6. Office of the LGU legislative body
Cadiz City, Negros Occidental
7. Office of the Mayor
Sagay, Negros Occidental
8. Office of the LGU legislative body
Sagay, Negros Occidental
9. Office of the Mayor
Escalante, Negros Occidental
10. Office of the LGU legislative body
Escalante, Negros Occidental
11. Office of the Mayor
San Carlos City, Negros Occidental
12. Office of the LGU legislative body
San Carlos City, Negros Occidental
13. Office of the Mayor
E.B. Magalona, Negros Occidental
14. Office of the LGU legislative body
E.B. Magalona, Negros Occidental
15. Office of the Mayor
Manapla, Negros Occidental

16. Office of the LGU legislative body
Manapla, Negros Occidental
17. Office of the Mayor
Toboso, Negros Occidental
18. Office of the LGU legislative body
Toboso, Negros Occidental
19. Office of the Mayor
Calatrava, Negros Occidental
20. Office of the LGU legislative body
Calatrava, Negros Occidental
21. Office of the Governor
Negros Occidental
22. Office of the LGU legislative body
Province of Negros Occidental
23. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village, Makati City
24. Commission on Audit (COA)
Commonwealth Avenue, Quezon City
25. Senate Committee on Energy
GSIS Bldg. Roxas Blvd., Pasay City
26. House Committee on Energy
Batasan Hills, Quezon City
27. Philippine Chamber of Commerce and Industry (PCCI)
3rd Floor, Chamber and Industry Plaza (CIP), 1030 Campus Avenue corner Park Avenue,
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28. Regulatory Operations Service (ROS)
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