

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 -104 RC

**QUEZON I ELECTRIC
COOPERATIVE, INC.
(QUEZELCO I),
Applicant.
x-----x**

D O C K E T E D
Date: **FEB 03 2017**
By: **[Signature]**

ORDER

On 27 May 2015, Quezon I Electric Cooperative, Inc. (QUEZELCO I) filed an *Application* for approval of the adjustment in rates pursuant to the tariff glide path (TGP) rules, with prayer for provisional authority.

QUEZELCO I alleged the following in its *Application*:

1. QUEZELCO I 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. Pootol, Pitogo, Quezon;
2. It holds an exclusive franchise from the National Electrification Commission, to operate an electric light and power distribution service in certain municipalities of the province of Quezon, namely: Agdangan, Alabat, Atimonan, Buenavista, Calauag, Catanauan, GeneralLuna, Guinayangan, Gumaca, Lopez, Macalelon, Mulanay, Padre Burgos, Perez, Pitogo, Plaride, Quezon, San Andres, San Francisco, San Narciso, Tagkawayan and Unisan, and one municipality of the province of Camarines Sur, Namely: Del Gallego;

THE ANTECEDENT FACTS

3. In 2009, the Honorable 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, QUEZELCO II filed with the Honorable Commission an application for approval of its proposed adjustment in rates pursuant to the RSEC-WR, docketed as ERC Case No. 2009- 117 RC;
6. In the said application, the Honorable Commission granted the cooperative provisional authority to implement the proposed rates in three-year tranches, with the following rate caps or initial tariffs on the Distribution, Supply and Metering (DSM) Charges being implemented starting at the end of the transition period, to wit:

CHARGES	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			219.6800
Distribution System Charge	PhP/kWh	0.5782	0.7595	
Supply Charges:				
Retail Customer Charge	PhP/Customer/ Mo		42.9200	42.9200
Supply System Charge	PhP/kWh	0.6001		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo	5.0000	35.9400	35.9400
Metering System Charge	PhP/kWh	0.4326		

7. On the other hand, 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 Honorable 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. QUEZELCO 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 their 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, QUEZELCO I 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	0.00%	0.00%	0.40%	0.40%	0.00%
Year 2014	0.00%	0.00%	0.40%	0.40%	0.00%
Year 2015	11.30%	0.00%	1.30%	12.60%	11.30%
Net Results				13.40%	11.30%

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

A. WITH PERFORMANCE INCENTIVE "S"

CHARGES	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			249.11
Distribution System Charge	PhP/kWh	0.6557	0.8613	
Supply Charges:				
Retail Customer Charge	PhP/Customer/ Mo		48.67	48.67
Supply System Charge	PhP/kWh	0.6805		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo	5.67	40.76	40.76
Metering System Charge	PhP/kWh	0.4906		

B. EXCLUDING PERFORMANCE INCENTIVE "S"

CHARGES	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			244.50
Distribution System Charge	PhP/kWh	0.6435	0.8453	
Supply Charges:				
Retail Customer Charge	PhP/Customer/ Mo		47.77	47.77
Supply System Charge	PhP/kWh	0.6679		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo	5.56	40.00	40.00
Metering System Charge	PhP/kWh	0.4815		

14. Consequently, applicant respectfully prays for the approval of the foregoing calculated DSM rates.

SUPPORTING DATA AND DOCUMENTS

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

Annex	Nature of Document
A A-1 A-2	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. Applicant pleads the foregoing allegations as may be material herein;
17. Applicant's current DSM rates which were granted by the Honorable Commission provisionally, were implemented in three-year tranches starting way back January 2010, with the rate caps or initial tariffs being implemented only starting at the end of the three-year transition period;
18. Over the years, the cost of its 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, the cooperative has been implementing the Sitio Energization 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 the cooperative 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, the cooperative 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 tariff 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, applicant respectfully 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, applicant is likewise submitting herewith the following documents, which are being made integral parts hereof, to wit:

Annex	Nature of Document
I	Affidavit in Support of the Prayer for Provisional Authority
J to J-1	Proof of furnishing copies of the Application to the Sangguniang Bayan of Pitogo and Sangguniang Panlalawigan of Quezon
K and series	Proof of publication of the Application in a newspaper of general circulation in QUEZELCO I's franchise area or where its principally operates

PRAYER

WHEREFORE, premises considered, it is most respectfully prayed of this Honorable Commission that pending evaluation of the instant application or after due notice and hearing, as the case may be, QUEZELCO I 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"

CHARGES	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			249.11
Distribution System Charge	PhP/kWh	0.6557	0.8613	
Supply Charges:				
Retail Customer Charge	PhP/Customer/ Mo		48.67	48.67
Supply System Charge	PhP/kWh	0.6805		

Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo	5.67	40.76	40.76
Metering System Charge	PhP/kWh	0.4906		

B. EXCLUDING PERFORMANCE INCENTIVE "S"

CHARGES	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			244.50
Distribution System Charge	PhP/kWh	0.6435	0.8453	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		47.77	47.77
Supply System Charge	PhP/kWh	0.6679		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo	5.56	40.00	40.00
Metering System Charge	PhP/kWh	0.4815		

Other reliefs, just and equitable in the premises are likewise prayed for.

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 February 2017 (Wednesday) at two o'clock in the afternoon (2:00 P.M.) at QUEZELCO I's principal office at Brgy. Poctol, Pitogo, Quezon.**

Accordingly, QUEZELCO I 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 its 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.

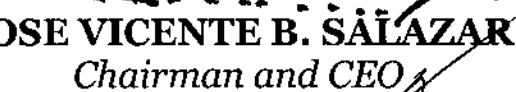
Failure of Applicant to comply with the above requirements within the prescribed period shall be a ground for cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from the said date of cancellation.

QUEZELCO I 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, 24 January 2017.

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSE VICENTE B. SALAZAR
Chairman and CEO

ERC
Office of the Chairman



B-2017-001-OC-08310

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COPY FURNISHED:

1. Quezon I Electric Cooperative, Inc. (MOPRECO)
Applicant
Brgy. Pootol, Pitogo, Quezon
2. Lerios-Amboy Pingol & Gonzales Law Offices
Attention: Atty. Precious Ellen L. Pingol
Counsel for Applicant QUEZELCO I
Units 1609-1610, Tycoon Centre
Pearl Drive, Ortigas Center, Pasig City
3. Office of the Mayor
Agdangan, Quezon
4. Local Government Unit (LGU) legislative body
Agdangan, Quezon
5. Office of the Mayor
Alabat, Quezon
6. Local Government Unit (LGU) legislative body
Alabat, Quezon
7. Office of the Mayor
Atimonan, Quezon
8. Local Government Unit (LGU) legislative body
Atimonan, Quezon
9. Office of the Mayor
Buenavista, Quezon
10. Local Government Unit (LGU) legislative body
Buenavista, Quezon
11. Office of the Mayor
Calauag, Quezon
12. Local Government Unit (LGU) legislative body
Calauag, Quezon
13. Office of the Mayor
Catanauan, Quezon
14. Local Government Unit (LGU) legislative body
Catanauan, Quezon
15. Office of the Mayor
General Luna, Quezon
16. Local Government Unit (LGU) legislative body
General Luna, Quezon
17. Office of the Mayor
Guinayangan, Quezon
18. Local Government Unit (LGU) legislative body
Guinayangan, Quezon
19. Office of the Mayor
Gumaca, Quezon
20. Local Government Unit (LGU) legislative body
Gumaca, Quezon
21. Office of the Mayor
Lopez, Quezon

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22. Local Government Unit (LGU) legislative body
Lopez, Quezon
23. Office of the Mayor
Macalelon, Quezon
24. Local Government Unit (LGU) legislative body
Makalelon, Quezon
25. Office of the Mayor
Mulanay, Quezon
26. Local Government Unit (LGU) legislative body
Mulanay, Quezon
27. Office of the Mayor
Padre Burgos, Quezon
28. Local Government Unit (LGU) legislative body
Perez, Quezon
29. Office of the Mayor
Perez, Quezon
30. Local Government Unit (LGU) legislative body
Pitogo, Quezon
31. Office of the Mayor
Plaridel, Quezon
32. Local Government Unit (LGU) legislative body
Plaridel, Quezon
33. Office of the Mayor
Quezon, Quezon
34. Local Government Unit (LGU) legislative body
Quezon, Quezon
35. Office of the Mayor
San Andres, Quezon
36. Local Government Unit (LGU) legislative body
San Andres, Quezon
37. Office of the Mayor
San Francisco, Quezon
38. Local Government Unit (LGU) legislative body
San Francisco, Quezon
39. Office of the Mayor
San Narciso, Quezon
40. Local Government Unit (LGU) legislative body
San Narciso, Quezon
41. Office of the Mayor
Tagkawayan, Quezon
42. Local Government Unit (LGU) legislative body
Tagkawayan, Quezon
43. Office of the Mayor
Unisan, Quezon
44. Local Government Unit (LGU) legislative body
Unisan, Quezon

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45. Office of the Mayor
Del Gallego, Camarines Sur
46. Local Government Unit (LGU) legislative body
Del Gallego, Camarines Sur
47. Office of the Governor
Province of Quezon
48. Office of the LGU legislative body
Province of Quezon
49. Office of the Governor
Province of Camarines Sur
50. Office of the LGU legislative body
Province of Camarines Sur

51. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village, Makati City
52. Commission on Audit
Commonwealth Avenue, Quezon City
53. Senate Committee on Energy
GSIS Bldg. Roxas Blvd., Pasay City
54. House Committee on Energy
Batasan Hills, Quezon City
55. 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
56. Regulatory Operations Service
Energy Regulatory Commission
17th Floor, Pacific Center, San Miguel Avenue, Pasig City