

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: M

**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on May 6, 2014, the Batangas II Electric Cooperative, Inc. (BATELEC II) filed with the Commission 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, that:

**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;





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Retail Customer Charge	Php/Meter/Mo.	5.00	54.92	54.92	54.92	54.92	54.92	54.92	54.92	54.92	54.92	54.92
Metering System Charge	Php/kWh	0.3460	-	-	-	-	-	-	-	-	-	-
<b>MCC</b>	Php/kWh	0.3216	0.3216	0.3216	0.3216	0.3216	0.3216	0.3216	0.3216	0.3216	0.3216	0.3216

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

<b>TOTAL DSM</b>	<b>584,649,909.84</b>	<b>413,722,866.97</b>
Provision for Reinvestment	104,947,246.00	
<b>TOTAL DSM (net of Reinvestment)</b>	<b>479,702,663.84</b>	<b>413,722,866.97</b>

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	253,324,107	Distribution Charge	PhP/kWh	0.5060	128,173,915
Customers		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
			PhP/kWh	PhP/kWh	0.3978	100,784,486
			RFSC			-
			Total			536,388,277

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Low Voltage kWh	132,208,601	Distribution Charge	PhP/kWh	0.1967	26,005,898	
Customers	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	204,276,267	Distribution Charge	PhP/kW	16.5000	792,198	
Customers	153	Distribution Charge	PhP/kWh	0.2070	42,278,025	
kW (Demand)	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

<b>COST COMPONENT</b>	<b>AMOUNT (PhP)</b>
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
<b>Total Revenue Requirement (with RF)</b>	<b>757,157,315</b>

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 13<sup>th</sup> 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"> <li>➤ 2012 Audited Financial Statements</li> <li>➤ 2012 Audited Trial Balance</li> <li>➤ Section B of 2012 Monthly Financial &amp; Statistical Report</li> <li>➤ UFR Model Without Reinvestment Fund</li> <li>➤ Reinvestment Fund Computation</li> </ul>

F	Book II: ➤ 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
<b>Residential</b>	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
<b>Low Voltage</b>	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
<b>Higher Voltage</b>	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

The Commission has set the application for jurisdictional 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.**

All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and title of the proceeding and stating: (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 proceeding may file their opposition to the application or comment thereon at any stage of the proceeding before the applicant concludes the presentation of its evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who may wish to have a copy of the application may request the applicant, prior to the date of the initial hearing, that they be furnished with a copy of the application. The applicant is hereby directed to furnish all those making such request with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the application and other pertinent records filed with the Commission during the usual office hours.

**WITNESS**, the Honorable Chairperson, **ZENAIDA G. CRUZ-DUCUT**, and the Honorable Commissioners, **ALFREDO J. NON GLORIA VICTORIA C. YAP-TARUC**, and **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, Energy Regulatory Commission, this 26<sup>th</sup> day of January, 2015 at Pasig City.



**ATTY. FRANCIS SATURNINO C. JUAN**  
Executive Director III