

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 RULES, WITH
PRAYER FOR PROVISIONAL
AUTHORITY,**

ERC CASE NO. 2015 -107 RC

**PAMPANGA III ELECTRIC
COOPERATIVE, INC.
(PELCO III),**

Applicant.

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DOCKETED
Date: MAR 01 2017
By: W

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 01 June 2015, Pampanga III Electric Cooperative, Inc. (PELCO III) filed an Application dated 22 May 2015 (Application) seeking the Commission's approval of its rate adjustment in accordance with the Rules Governing the Tariff Glide Path, pursuant to Article VII of the Rules for Setting the Rural Electric Cooperatives' Wheeling Rates (RSEC-WR).

PELCO III alleged the following in its *Application*:

THE APPLICANT

1. PELCO III is a non-stock, non-profit electric cooperative duly organized and existing under and by virtue of Philippine laws, with principal office at Mc Arthur Hi-way, Sampaloc, Apalit, Pampanga;
2. It holds an exclusive franchise issued by the National Electrification Commission to operate an electric light and power distribution system in certain municipalities of the province of Pampanga, namely: Apalit, Macabebe, Masantol, Minalin, San Simon and Sto. Tomas;

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 provided 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. On November 8, 2011, PELCO III filed with the Honorable Commission an application for approval of its proposed Initial Tariffs pursuant to the RSEC-WR, docketed as ERC Case No. 2011-159 RC;
6. The Honorable Commission approved PELCO III's application in a decision dated March 12, 2012 and docketed on June 13, 2012, granting the cooperative at the end of the transition period, 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			118.5500
Distribution System Charge	PhP/kWh	0.2748	0.3748	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		59.7300	59.7300
Supply System Charge	PhP/kWh	0.4140		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo	5.0000	54.9200	54.9200
Metering System Charge	PhP/kWh	0.3460		

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

$$\text{Tariff} \times (1 + \text{index "I"} - \text{Efficiency Factor "X"} + \text{Performance Incentive "S"})$$

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.
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.

12. In its decision in ERC Case No. 2011-159 RC, the Honorable Commission directed PELCO III to implement its revised rates based on the RSEC-WR starting January 2012 and ending December 2014 and emphasized that the implementation of its transition rates coincides with the first regulatory year of the TGP. In the said decision, PELCO III was grouped with the Third Entrant Group under the TGP Rules, and directed to file its application for rate adjustment pursuant thereto within the timeline set for ECs belonging to the Third Entrant Group. Hence, this application.

THE PROPOSED RATE ADJUSTMENT

13. Applying the methodology embodied in the TGP Rules, PELCO III 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%	0.00%	0.00%	0.00%
Year 2014	0.00%	0.00%	0.80%	0.80%	0.00%
Year 2015	0.75%	0.60%	0.80%	0.95%	0.15%
Net Results				1.75%	0.15%

14. Applying the above values resulted in adjustments on PELCO III's DSM Rates, as follows:

A. WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			121.0957
Distribution System Charge	PhP/kWh	0.2807	0.3828	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		61.0126	61.0126
Supply System Charge	PhP/kWh	0.4229		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.1074	56.0993	56.0993
Metering System Charge	PhP/kWh	0.3534		

B) EXCLUDING PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				

ERC CASE NO. 2015-107 RC
NOTICE OF PUBLIC HEARING/ 16 FEBRUARY 2017
PAGE 5 OF 9

Demand Charge	PhP/kW			118.7247
Distribution System Charge	PhP/kWh	0.2752	0.3754	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		59.8180	59.8180
Supply System Charge	PhP/kWh	0.4146		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.0074	55.0009	55.0009
Metering System Charge	PhP/kWh	0.3465		

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

SUPPORTING DATA AND DOCUMENTS

16. 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
	Proposed TGP Calculation and supporting documents using the prescribed templates:
A	Index "I" Calculation
A-2	Efficiency Factor "X" Calculation
A-3	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(2010-2104)
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

17. Applicant repleads the foregoing allegations as may be material herein;

ERC CASE NO. 2015-107 RC
NOTICE OF PUBLIC HEARING/ 16 FEBRUARY 2017
PAGE 6 OF 9

18. Applicant's current DSM rates were implemented starting way back January 2012;
19. 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 the Aquino government, 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;
20. Thus, the cooperative urgently needs additional funds to be able to cope with the rising costs of its operations;
21. 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;
22. 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

23. 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 Apalit and Sangguniang Panlalawigan of Pampanga
K and series	Proof of publication of the Application in a newspaper of general circulation in PELCO III'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, PELCO III be allowed to implement either of the following two (2) alternative

ERC CASE NO. 2015-107 RC
NOTICE OF PUBLIC HEARING/ 16 FEBRUARY 2017
PAGE 7 OF 9

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
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Retail Customer Charge	PhP/Meter/Mo.	5.0074	55.0009	55.0009
Metering System Charge	PhP/kWh	0.3465		

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

The Commission has set the *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **06 April 2017 (Thursday) at two o'clock in the afternoon (2:00 P.M.), at PELCO III's principal office at Mc Arthur Highway, Sampaloc, Apalit, Pampanga.**

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 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 case may file their Opposition or Comment thereon at any stage of the proceeding before Applicant concludes the presentation of its evidence, subject to the requirements under Rule 9 of the 2006 Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name and address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

All such persons who wish to have a copy of the *Application* may request from Applicant that they be furnished with the same, prior to the date of the initial hearing. Applicant is hereby directed to furnish all those making such request with copies of the *Application* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the

Application and other pertinent records filed with the Commission during the standard office hours.

WITNESS, the Honorable Chairman **JOSE VICENTE B. SALAZAR**, and the Honorable Commissioners **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 16th day of February 2017 in Pasig City.

ATTY. NATHAN J. MARASIGAN
Chief of Staff
Office of the Chairman and CEO

for me ASJ
LS: MCC/ARC/PAR/APV