

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.**

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D O C K E T E D
Date: JAN 30 2017
By: W

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that 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

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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 operate
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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:				
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Retail Customer Charge	PhP/Meter/Mo.	5.48	39.36	39.36
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Retail Customer Charge	PhP/Customer/Mo		46.49	46.49
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Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.42	38.93	38.93
Metering System Charge	PhP/kWh	0.4686		

The Commission has set the *Application* 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.

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:


- i. The petitioner's name and address;
- ii. 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
- iii. 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 rests its case, 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 23rd day of January 2017 at Pasig City.


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