

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



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF
ADJUSTMENT IN RATES
COVERING THE FIRST TO
THIRD REGULATORY
YEARS OF THE SECOND
REGULATORY PERIOD
FOR THE SECOND
ENTRANT GROUP UNDER
THE TARIFF GLIDE PATH
(TGP) RULES, WITH
MOTION FOR
PROVISIONAL
AUTHORITY,**

ERC CASE NO. 2017-074 RC

**NUEVA ECIJA II
ELECTRIC COOPERATIVE,
INC. – AREA 2 (NEECO II-
AREA 2),**

Applicant.

X-----X

DOCKETED
Date: APR 17 2018
By: W

ORDER

On 18 August 2017, Nueva Ecija II Electric Cooperative, Inc.- Area 2 (NEECO II-AREA 2) filed an *Application* dated 01 June 2017 for the approval of its adjustment in rates covering the first to third regulatory years of the second regulatory period for the second entrant group under the Tariff Glide Path (TGP) rules, with motion for provisional authority.

NEECO II-AREA 2 alleged the following in its *Application*:

1. Applicant is an electric cooperative doing business under Philippine laws, with principal offices at Maharlika Highway, Barangay Diversion, San Leonardo, Nueva Ecija;

2. It is engaged in the distribution of electric light and power in the City of Palayan and certain municipalities in the province of Nueva Ecija, namely: San Leonardo, Sta. Rosa, Papaya (Gen. Tinio), Penaranda, Bongabon, Laur, Gabaldon, Rizal, Llanera and Gen. M. Natividad.

NATURE OF APPLICATION

3. The instant Application is being filed for the approval of Applicant's proposed adjustment in its Distribution, Supply and Metering (DSM) Rates to be implemented on the First to Third Regulatory Years of the Second Regulatory Period for Electric Cooperatives belonging to the Second Entrant Group under the Tariff Glide Path Rules (TGP Rules) and pursuant to said Rules, as well as other pertinent laws and rules.

STATEMENT OF FACTS

4. Sometime in 2014, Applicant filed with the Honorable Commission an application for approval of the proposed adjustment in its DSM Rates pursuant to the TGP Rules, docketed as ERC Case No. 2014-080RC.
5. In the said application, Applicant prayed for approval of either of the following two (2) proposed alternative DSM rates, to be implemented effective January 2015, to wit:

A. WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			236.6094
Distribution System Charge	PhP/kWh	0.6228	0.8180	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		46.2276	46.2276
Supply System Charge	PhP/kWh	0.6463		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.3853	38.7097	38.7097
Metering System Charge	PhP/kWh	0.4659		

B. EXCLUDING PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			222.3302
Distribution System Charge	PhP/kWh	0.5852	0.7687	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		43.4378	43.4378
Supply System Charge	PhP/kWh	0.6073		

ERC CASE NO. 2017-074 RC
ORDER/10 APRIL 2018
Page 3 OF 13

Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.0603	36.3736	36.3736
Metering System Charge	PhP/kWh	0.4378		

6. Foregoing application was Applicant's initial application for DSM rate adjustment pursuant to the TGP Rules, under which electric cooperatives are given an opportunity to adjust their rates once every three (3) years, which may occur at the start of the fourth year of the First Regulatory Period and every 3 years thereafter;
7. Applicant belongs to the Second Entrant Group under the TGP Rules, whose first regulatory period is from January 1, 2012 to December 31, 2017. Having filed its initial application for DSM rate adjustment on the third regulatory year of the First Regulatory Period, the cooperative is filing the instant Application in the current year 2017, the sixth regulatory year of the First Regulatory Period, for the proposed adjustment of its DSM rates to be implemented on the first to third regulatory years of the Second Regulatory Period for the Second Entrant Electric Cooperatives under the TGP Rules;
8. Applicant's first TGP application under ERC Case No. 2014-080RC is still pending evaluation of the Honorable Commission but in spite thereof, it is constrained to adopt and use the proposed DSM rates in the said application as bases in computing the proposed adjustment in the instant Application.

THE PROPOSED DSM RATE ADJUSTMENT

9. Under the TGP Rules, the concerned electric cooperative shall use the following formula in determining the TGP for the fourth to sixth years of the Regulatory Period, to wit:

$$TGP_B = TGP_n + TGP_{n+1} TGP_{n+2}$$

where

$$TGP_n = I_n - X_n + S_n$$

n= the fourth year of the Regulatory Period and succeeding Regulatory Periods

The TGP calculated for each of the three years will be summed to determine the possible rate adjustment starting on the First Year of the next Regulatory Period.

10. Applying the methodology embodied in the TGP Rules, Applicant calculated the values of the "I", "X" and "S" and came up with the following results, to wit:

	"I"(B)	"X"(B)	"S"(B)	TGP B	TGP B (excluding S)
YEAR 2015	0.00%	0.00%	1.90%	1.90%	0.00%
YEAR 2016	0.00%	1.83%	2.30%	0.47%	-1.83%
YEAR 2017	0.00%	1.85%	2.50%	0.65%	-1.85%
TOTAL				3.02%	-3.68%

11. Utilizing the above values will result in adjustments in Applicant's DSM Rates covering the first to third years of the Second Regulatory Period for electric cooperatives belonging to the Second Entrant Group, as follows:

A. WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			243.75
Distribution System Charge	PhP/kWh	0.6416	0.8427	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo.		47.62	47.62
Supply System Charge	PhP/kWh	0.6659		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.55	39.88	39.88
Metering System Charge	PhP/kWh	0.4800		

B) EXCLUDING PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			214.15
Distribution System Charge	PhP/kWh	0.5636	0.7404	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		41.84	41.84
Supply System Charge	PhP/kWh	0.5850		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	4.87	35.03	35.03
Metering System Charge	PhP/kWh	0.4217		

12. Consequently, Applicant respectfully prays that it be allowed to implement either of the above two calculated alternative DSM rates, effective January 1, 2018 and up to December 31, 2020.

SUPPORTING DATA AND DOCUMENTS

13. In support of the foregoing computations, Applicant is submitting herewith the following documents, which are being made integral parts hereof, to wit:

Annex Markings	Nature of Document
A to A-2	Proposed TGP Calculations and supporting documents using the prescribed templates: Index "I" Calculation Efficiency Factor "X" Calculation Performance Incentive "S" Calculation

B	MFSR - Sections B and E (2013-2016)
C	Billing Determinants Template (2013-2016 kWh Sales, No. of Customers and kW Demand)
D	Sample Bills per customer type (2013-2016)
E	Regional CPI (2013-2016)
F	RFSC Utilization (2014-2016)
G	Consumer Complaints Summary or Tracking Form (2014-2016)
H	Audited Financial Statements (2014-2016)

ALLEGATIONS IN SUPPORT OF THE MOTION
FOR PROVISIONAL AUTHORITY

14. Applicant respectfully repleads herein the foregoing allegations;
15. Applicant respectfully prays that it be allowed to implement the proposed rate adjustment starting January 1, 2018, considering that it is expressly prescribed under the TGP Rules' provision on Regulatory Period and Process, which provides in part, as follows:

“2. Regulatory Period and Process

2.1 On or before each Fourth month of the Third and Sixth regulatory year of their respective Regulatory Periods, the electric cooperative may file before the Commission an application for a rate adjustment reflecting the values for the “I”, “X” and “S” as determined in accordance with these rules. ***The initial tariff caps of the respective ECs shall be adjusted by the “I, “X” and “S” effective at the start of the Fourth Regulatory Year of the First Regulatory Period x xx***” (Emphasis ours)

16. Under the TGP Rules, the regulatory period is six (6) years for each entry Group. For the Second Entrant Group, the first regulatory period is from January 1, 2012 to December 31, 2017 and the start of the Fourth Regulatory Year is January 1, 2015. Applicant belongs to the Second Entrant Group, accordingly, its initial DSM Rates under the TGP Rules should be adjusted through the proposed TGP B Rates starting January 1, 2018;
17. Aside from the foregoing, Applicant further prays for provisional authority to implement the proposed rates effective January 1, 2018 and even during the pendency of the instant application, considering that Applicant urgently needs additional funds to be able to cope with the rising costs of its operations. Among the major factors that added to its operating costs is the implementation of the Sitio Energization Program (SEP) of the government consisting of massive extension of its distribution lines up to the remotest and far-flung areas which considerably increased its operations and maintenance costs and likewise resulted to increased system losses which the cooperative is constrained to absorb;

18. Further, the rising cost of materials, tools, equipment, supplies, fuel and other costs incidental to its daily operations has considerably increased these past several years and the funds being generated from Applicant's DSM charges, the rates of which were granted by the Honorable Commission way back in Year 2010 by virtue of the Rules for Setting the Electric Cooperatives' Wheeling Rates (RSEC-WR), are no longer sufficient to cover those costs, and if not addressed accordingly with the further adjustment of its rates, Applicant's service to its consumers will be prejudiced.
19. Considering the foregoing, it is respectfully prayed that Applicant be allowed to implement the proposed DSM Rates effective January 1, 2018, even while the instant application is pending hearing or evaluation of the Honorable Commission.

COMPLIANCE WITH PRE-FILING REQUIREMENTS

20. Finally, in compliance with the pre-filing requirements for the instant application, Applicant is likewise submitting herewith the following documents, which are being made integral parts hereof, to wit:

Annex Markings	Nature of Document
I	Judicial Affidavit in support of the motion for provisional authority
J and series	Proof of furnishing copies of the Application to the Sangguniang Bayan of San Leonardo and Sangguniang Panlalawigan of Nueva Ecija
K and series	Publication of the Application in a newspaper of general circulation in NEECO II - AREA 2's franchise area or where it principally operates, with Affidavit of Publication

PRAYER

WHEREFORE, premises considered, it is most respectfully prayed of this Honorable Commission that after due notice and hearing, Applicant NEECO II - AREA 2 be allowed to implement either of the following two (2) alternative proposed new rates for its Distribution, Supply and Metering (DSM) Charges, effective January 2018, to wit:

A. WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			243.75
Distribution System Charge	PhP/kWh	0.6416	0.8427	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		47.62	47.62

Supply System Charge	PhP/kWh	0.6659		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.55	39.88	39.88
Metering System Charge	PhP/kWh	0.4800		

B. EXCLUDING PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			214.15
Distribution System Charge	PhP/kWh	0.5636	0.7404	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		41.84	41.84
Supply System Charge	PhP/kWh	0.5850		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	4.87	35.03	35.03
Metering System Charge	PhP/kWh	0.4217		

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 **14 June 2018 (Thursday) at ten o'clock in the morning (10:00 A.M.) at NEECO II-AREA 2's principal office at Maharlika Highway, Barangay Diversion, San Leonardo, Nueva Ecija.**

Accordingly, NEECO II-AREA 2 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 its 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.

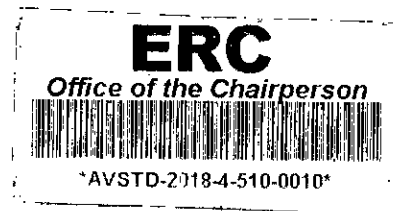
NEECO II-AREA 2 must also be prepared to make an expository presentation of the instant *Application*, aided by whatever communication medium that it may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the *Application* is all about and the reasons and justifications being cited in support thereof.


SO ORDERED.

Pasig City, 10 April 2018.

FOR AND BY AUTHORITY
OF THE COMMISSION:


AGNES VST DEVANADERA
Chairperson and CEO




LS: MLMG/ARG/APV
IO_2017-074 RC_neeco 2-2

Copy Furnished:

1. Atty. Jeremiah D. Francisco
Counsel for NEECO II-Area 2
Dechavez & Evangelista Law Offices
Unit 2008, 20th Floor Tycoon Centre
Pearl Drive, Ortigas Center, Pasig City 1605
2. Mr. Ramon M. De Vera
General Manager
NEECO II-AREA 2
Maharlika Highway, Brgy. Diversion
San Leonardo, Nueva Ecija
3. The Office of the Solicitor General
234 Amorsolo Street, Legaspi Village, Makati City
Metro Manila
4. The Commission on Audit
Don Mariano Marcos Avenue
Diliman, Quezon City, Metro Manila
5. The Committee on Energy
Senate of the Philippines
GSIS Building, Roxas Blvd., Pasay City, Metro Manila
6. The Committee on Energy
House of Representatives
Batasan Hills, Quezon City, Metro Manila
7. Office of the President of PCCI
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
8. Office of the City Mayor
City of Palayan
Province of Nueva Ecija
9. Office of the Local Government Legislative Body
City of Palayan
Province of Nueva Ecija
10. Office of the Mayor
San Leonardo, Nueva Ecija
11. Office of the Local Government Legislative Body
San Leonardo, Nueva Ecija

12. Office of the Mayor
Sta. Rosa, Nueva Ecija
13. Office of the Local Government Legislative Body
Sta. Rosa, Nueva Ecija
14. Office of the Mayor
Papaya (Gen. Tinio), Nueva Ecija
15. Office of the Local Government Legislative Body
Papaya (Gen. Tinio), Nueva Ecija
16. Office of the Mayor
Penaranda, Nueva Ecija
17. Office of the Local Government Legislative Body
Penaranda, Nueva Ecija
18. Office of the Mayor
Bongabon, Nueva Ecija
19. Office of the Local Government Legislative Body
Bongabon, Nueva Ecija
20. Office of the Mayor
Laur, Nueva Ecija
21. Office of the Local Government Legislative Body
Laur, Nueva Ecija
22. Office of the Mayor
Gabaldon, Nueva Ecija
23. Office of the Local Government Legislative Body
Gabaldon, Nueva Ecija
24. Office of the Mayor
Rizal, Nueva Ecija
25. Office of the Local Government Legislative Body
Rizal, Nueva Ecija
26. Office of the Mayor
Llanera, Nueva Ecija
27. Office of the Local Government Legislative Body
Llaner, Nueva Ecija
28. Office of the Mayor
Gen. M. Natividad, Nueva Ecija
29. Office of the Local Government Legislative Body
Gen. M. Natividad, Nueva Ecija

30. Office of the Provincial Governor
Province of Nueva Ecija
31. Office of the Sangguniang Panlalawigan
Province of Nueva Ecija
32. Standards, Compliance and Monitoring Division
Energy Regulatory Commission
17th Floor, Pacific Center, San Miguel Avenue, Pasig City