

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

IN THE MATTER OF THE
APPLICATION FOR APPROVAL OF
A REDUCTION IN RATES IN
COMPLIANCE WITH SECTION 60
OF REPUBLIC ACT NO. 9136 AND
EXECUTIVE ORDER NO. 119, WITH
PRAYER FOR PROVISIONAL
AUTHORITY

ERC CASE NO. 2003-94

NEGROS ORIENTAL II ELECTRIC
COOPERATIVE, INC. (NORECO II),
Applicant.

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O R D E R

Before this Commission for resolution is the application filed on March 10, 2003 by applicant Negros Oriental II Electric Cooperative, Inc. (NORECO II) for approval of a reduction in rates and loan condonation in compliance with Section 60 of Republic Act No. 9136 and Executive Order No. 119, with prayer for provisional authority.

In the said application, NORECO II prayed that the rate reduction equivalent to ₱0.104/kWh be provisionally and immediately approved ex-parte; that it be authorized to adopt and implement the same effective upon provisional approval; and that after notice and hearing, the rate reduction be approved permanently.

In support of its application and prayer for provisional authority, NORECO II submitted the following documents in compliance with the requirements set forth in the Guidelines for the Implementation of the Reduction in Rate of the Electric Cooperatives Due to the Condonation of Debts, as amended, to wit:

1. Certification from the National Electrification Administration (NEA) indicating the amount of ₱105,513,813.55 as NORECO II's outstanding loan to NEA as of June 26, 2001 and that said amount has been a) recommended for assumption by the Power Sector Assets Liabilities Management (PSALM); and b) has been used for Rural Electrification Program;
2. An Omnibus Certification from the Commission on Audit (COA) certifying that its office has verified the loan balances as of June 26, 2001 of one hundred eighteen (118) electric cooperatives, including that of NORECO II and found the same to be true and correct;
3. Certification executed by NORECO II's General Manager, Mr. Ephraim T. Taclob, confirming that the amount of ₱105,513,813.55 is due and outstanding;
4. Certification from the National Power Corporation (NPC) attesting that it is current in the payment of its obligations;
5. Detailed information or report on outstanding loans applied for condonation as follows:
 - a. Amortization payments on the Rural Electrification Loans;and

- b. Monthly kilowatthour sales covering the period July 1, 2001 to June 30, 2002.

NORECO II submitted other supporting data/documents in accordance with the aforesaid Guidelines, such as: a) the certifications of receipt of copies of the notice of application by the Local Government Units' (LGUs) Legislative Bodies of the Municipalities and Cities within NORECO II's area of coverage; and b) the affidavit of publication executed by Mr. Alex Rey V. Pal, Negros Oriental Bureau Chief of Visayan Daily Star, attesting to the publication of the Notice of Application.

I. SUMMARY OF NORECO II's APPLICATION

NORECO II's proposed rate reduction was computed as follows¹:

| | |
|---|------------------------|
| Annual Amortization of Condoned Loans | ₱ 14,352,153.88 |
| Divide by Total Annual kWh Sales (for the twelve months Ending June 2002) | <u>105,452,231 kWh</u> |
| Rate Reduction | ₱ 0.1361/kWh |
| COOP's Recommended Rate Reduction | ₱ 0.1044/kWh |

II. COMMISSION DISCUSSIONS AND CONCLUSIONS

II.A.1 Loan Profile

Mr. Ephraim T. Taclob, NORECO II's General Manager, issued a Certification to the effect that NORECO II's total loans to be condoned out of the loans with NEA is in the amount of ₱105,513,813.55.

¹ Based on Annex "B" – Rate Calculation submitted by NORECO II

The NEA Loan Profile submitted by NORECO II provides the information on the amortization payments on its Rural Electrification Loans as of June 26, 2001.

II.A.2. Monthly kilo-Watthour (kWh) sales covering the period July 1, 2001 to June 30, 2002.

The table below shows the summary of energy sales of NORECO II for the twelve (12) months ending June 30, 2002:

| Customer Class | Total Sales (kWh)² |
|-----------------------|--------------------------------------|
| Residential | 51,379,529 |
| Commercial | 31,809,790 |
| Industrial | 10,153,964 |
| Public Building | 6,353,639 |
| BAPA | 701,075 |
| Street Lights | 2,331,215 |
| Water System | 2,723,019 |
| Total | 105,452,231 |

The data on energy sales were verified because this will serve as the billing determinant³ to be used in the calculation of the rate reduction. This was done by comparing the said data with that of the monthly kWh sales reported by NORECO II in its regular submission of Monthly and Financial Statistical Reports (MFSRs). Said verification showed that the energy sales used by NORECO II as the billing determinant, were correct vis-à-vis its submitted MFSRs.

² Based on Annex "A" Schedule B of NORECO II's application.

³ Billing Determinants are the units divided into a class of costs to calculate a rate element.

II.B. Calculation of the Rate Reduction for Purposes of Granting Provisional Authority

NORECO II proposed a rate reduction in the amount of P0.104/kWh. However, an evaluation of the documents it submitted resulted to a rate reduction of only P0.0348/kWh. Such discrepancy was due to NORECO II's computation of the rate reduction using its actual annual amortization to NEA instead of its annual amortization based on the amortization cost incorporated in its last approved rate. The rate reduction was computed as follows:

| | |
|--|------------------------|
| Annual Amortization based on the amortization cost incorporated In NORECO II's last approved rate (₱ 306,176.00 x 12) | ₱ 3,674,112.00 |
| Divide by Total Annual Sales (for the twelve months Ending June 2002) | <u>105,452,231 kWh</u> |
| Rate Reduction | ₱ 0.0348/kWh |

DISPOSITION

WHEREFORE, the foregoing premises considered, Negros Oriental II Electric Cooperative, Inc. (NORECO II) is hereby granted a provisional authority to reduce its rates by ₱0.0348/kWh effective on the next billing cycle after receipt of this Order. Should the rate reduction provisionally authorized herein is found to be insufficient after final evaluation, the amount corresponding to the deficiency shall be reimbursed by NORECO II to its consumers by crediting the same in their electric bills covering future consumptions for a period of not more than six (6) months from the implementation of the Decision.

Relative thereto, NORECO II is hereby directed to comply with the following conditions:

- a) Reflect the approved reduction in rates as a separate item in the consumers' electric bills;
- b) Inform its consumers of the said approved rate reduction not later than thirty (30) days after receipt of this Order;
- c) Submit five (5) sample bills for each customer class for verification and confirmation purposes on or before the twentieth (20th) day of the month following the effectivity of the approved rate reduction and every month thereafter; and
- d) Continue its payment to NEA with respect to all outstanding obligations assumed by PSALM, if the amortization cost component of the EC's tariff is still collected from the end-users;

Finally, NORECO II is directed to submit the following documents/data:

- a. Certification from PSALM provisionally acknowledging the amount of loans applied for condonation subject to the final results of an audit to be performed by an independent body commissioned for such purpose;
- b. Detailed information or report on outstanding loans applied for condonation, to wit:
 - i. List of outstanding loans obtained from creditors under Article II, Section 1 of the Amended Guidelines;

- ii. Purpose of each loan;
- iii. Date of approval of each loan;
- iv. Total Releases from each loan granted and date of such releases;
- v. Principal and interest payments made for each loan;
- vi. Outstanding balance for each loan;
- vii. Data pertaining to its last approved rate adjustment whether provisional or final;
- viii. Proceeds from Benefits to Host Communities in the form of grants or technical assistance pursuant to Chapter II, Sections 289 to 294 of the Local Government Code, if applicable;
- ix. Statement on debt restructuring of any loan, if any;
- x. Revenues generated from amortization portion of approved rates channelled to payments of purchased power cost, if applicable; and
- xi. Other documents that may be needed by the ERC in the course of the evaluation.

NORECO II is reminded to furnish the legislative body of the Local Government Unit of the locality where it principally operates with a copy of its accomplished application form.

In the meantime, finding the application sufficient in form and in substance, with the required fees having been paid, the same is hereby set

for hearing on May 8, 2003 at one o'clock (1:00 P.M.) in the afternoon at the Cebu III Electric Cooperative, Inc.'s (CEBECO III) Auditorium, Sepaway, Toledo City, Cebu.

Let copies of this Order and the attached Notice of Public Hearing be furnished the Municipal/City Mayors of Bacong, Basay, Bayawan, Dauin, Dumaguete, Pamplona, San Jose, Siaton, Sibulan, Sta. Catalina, Tanjay, Valencia, Zamboanquita and Amlan, all in the Province of Negros Oriental, for the appropriate posting thereof on their respective bulletin boards.

Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished the Office of the Solicitor General (OSG), the Commission on Audit (COA), the NEA, the PSALM and the Committees on Energy of both Houses of Congress who are hereby requested to have their respective duly authorized representatives present at the aforesaid initial hearing.

NORECO II is hereby directed to publish, at its own expense, the attached Notice of Public Hearing at least twice (2) for two (2) successive weeks in two (2) newspapers of nationwide circulation in the country, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing.

The evidence on the posting and publication of the Notice of Public Hearing consisting of the certifications of the abovementioned Mayors or their duly authorized representatives, bearing the seals of their offices and the affidavits of the Editors or Business Managers of the newspapers wherein the said Notice of Public Hearing would be published, together with the complete copies of the issues of the said newspapers, should be submitted to the Commission by NORECO II on the date of the initial hearing.

SO ORDERED.

Pasig City, March 17, 2003.

(Sgd) LETICIA V. IBAY
Acting Chairman

(Sgd) MARY ANNE B. COLAYCO
Commissioner

(Sgd) OLIVER B. BUTALID
Commissioner

(Sgd) CARLOS R. ALINDADA
Commissioner

Copy furnished:

1. Atty. Zenon S. Suarez
Counsel for Applicant
4/F Casman Bldg., 1198 Quezon Avenue.,
Quezon City
2. Negros Oriental II Electric Cooperative, Inc. (NORECO II)
Attn: Mr. Ephraim Taclob
Real St., Dumaguete City
3. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village
City of Makati - 1229
4. Commission on Audit
Commonwealth Avenue
Quezon City - 1121
5. Fr. Jose Silva
Administrator
National Electrification Administration (NEA)
NIA Road, Diliman, Quezon City
6. Senate Committee on Energy
GSIS Building, Roxas Boulevard
Pasay City - 1300
7. House Committee on Energy
Batasan Hills, Quezon City - 1126
8. Power Sector Assets & Liabilities Management Corporation
2nd Floor SGV II Building
Ayala, Avenue, Makati City
9. Congressman Ernesto C. Pablo
House of Representatives
Batasan Hills, Diliman, Quezon City 1126
11. The Municipal Mayor
Bacong, Negros Oriental
12. The Municipal Mayor
Basay, Negros Oriental
13. The Municipal Mayor
Bayawan, Negros Oriental
14. The Municipal Mayor
Dauin, Negros Oriental
15. The Municipal Mayor
Dumaguete City, Negros Oriental
16. The Municipal Mayor
Pamplona, Negros Oriental

17. The Municipal Mayor
San Jose, Negros Oriental
18. The Municipal Mayor
Siaton, Negros Oriental
19. The Municipal Mayor
Sibulan, Negros Oriental
20. The Municipal Mayor
Sta. Catalina, Negros Oriental
21. The Municipal Mayor
Tanjay, Negros Oriental
22. The Municipal Mayor
Valencia, Negros Oriental
23. The Municipal Mayor
Valencia, Negros Oriental
24. The Municipal Mayor
Zamboangita, Negros Oriental
25. The Municipal Mayor
Amlan, Negros Oriental