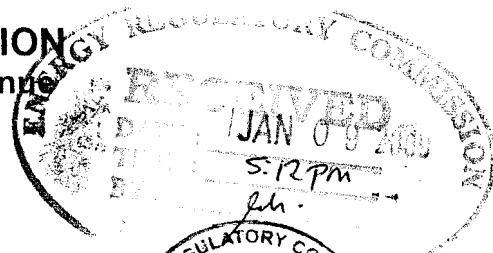


Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pacific Center Building, San Miguel Avenue
Pasig City, Metro Manila

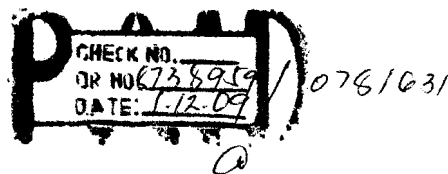


2000-002 RC
ERC CASE NO. _____

**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF OVER-ALL
TARIFF ADJUSTMENT, WITH
PRAYER FOR ISSUANCE OF
PROVISIONAL AUTHORITY,**

**SURIGAO DEL NORTE
ELECTRIC COOPERATIVE,
INC. (SURNECO),**

X-----X



A P P L I C A T I O N

Applicant **SURIGAO DEL NORTE ELECTRIC COOPERATIVE, INC.**
(**SURNECO** for brevity), by and through counsel, to this Honorable
Commission, respectfully states:

1. SURNECO is an electric cooperative duly organized and existing under and by virtue of the laws of the Philippines, with principal office at Corner Narciso and Espina Streets, Surigao City, represented herein by its General Manager **DANNY Z. ESCALANTE**, of legal age, Filipino, married and with office address also at SURNECO Office, Surigao City. It may be served with summons and other legal processes, through its counsel at the address stated below. SURNECO is the exclusive franchise holder issued by the National Electrification Administration (NEA) to operate an electric light and power service in: **Mainland** - the City of Surigao and eleven (11) Municipalities of the Province of Surigao del Norte, namely: Alegria, Bacuag, Claver, Gigaquit, Mainit, Malimono, Placer, San Francisco, Sison, Tagana-an and Tubod; and **Hikdop Island**;

2. SURNECO has prepared its proposed rate adjustment in accordance with the specific provisions of Republic Act No. 9136 and the implementing

guidelines issued by the Honorable Commission in conformity with the Implementing Rules and Guidelines on pre-filing requirements. The application submitted made use of the model computation prescribed by the Honorable Commission using year 2007 as the test year. And as such, SURNECO requests from this Honorable Commission the approval of its proposed over-all tariff adjustment per customer class relative to distribution, supply and metering charges, as presented below:

Table I – Comparison of Proposed and Existing Rates

	Unit	Rate Proposal	Effective Rate	Difference
Residential				
Distribution Charge	PhP/kWh	1.0638	0.8869	0.1769
Supply Charge	PhP/kWh	0.5861	0.5205	0.0656
Metering Charge				
PhP/customer/month	PhP/meter/mo	25.00	5.00	20.00
PhP/kWh	PhP/kWh	0.3114	0.3342	-0.0228
Rate Reduction-LC	PhP/kWh	0.0000	-0.2617	0.2617
Inter-class Cross Subsidy	PhP/kWh	0.0000	0.0000	
Small Commercial				
Distribution Charge	PhP/kWh	0.8088	0.5645	0.2443
Supply Charge	PhP/cust/mo	45.07	34.64	10.43
Metering Charge	PhP/meter/mo	48.95	27.25	21.70
Rate Reduction-LC	PhP/kWh	0.0000	-0.1466	0.1466
Rate Reduction-LC	PhP/cust/mo	0.0000	-2.35	2.35
Inter-class Cross Subsidy	PhP/kWh	0.0000	0.0000	0.0000
Large Commercial (3 Phase)				
Distribution Charge	PhP/kW	25.0000	0.0000	25.00
Distribution Charge	PhP/kWh	0.5795	0.5645	0.0150
Supply Charge	PhP/cust/mo	45.07	34.64	10.43
Metering Charge	PhP/meter/mo	48.95	27.25	21.70
Rate Reduction-LC	PhP/kWh	0.0000	-0.1466	0.1466
Rate Reduction-LC	PhP/cust/mo	0.0000	-2.35	2.35
Inter-class Cross Subsidy	PhP/kWh	0.0000	0.0000	
Industrial				
Distribution Charge	PhP/kW	25.00	12.10	12.90
Distribution Charge	PhP/kWh	0.3994	0.4395	-0.0401
Supply Charge	PhP/cust/mo	45.07	34.64	10.43
Metering Charge	PhP/meter/mo	48.95	220.51	-171.56
Rate Reduction-LC	PhP/kWh	0.0000	-0.1451	0.1451
Rate Reduction-LC	PhP/cust/mo	0.0000	-10.49	10.49
Inter-class Cross Subsidy	PhP/kWh	0.0000	0.0000	
P.Buildings				
Distribution Charge	PhP/kWh	0.6419	0.5550	0.0869
Supply Charge	PhP/cust/mo	45.07	34.40	10.67
Metering Charge	PhP/meter/mo	48.95	17.64	31.31
Rate Reduction-LC	PhP/kWh	0.0000	-0.1441	0.1441
Rate Reduction-LC	PhP/cust/mo	0.0000	-1.93	1.93
Inter-class Cross Subsidy	PhP/kWh	0.0000	0.0000	
St. Light				
Distribution Charge	PhP/kWh	4.6376	1.8777	2.7599
Supply Charge	PhP/cust/mo	45.07	34.17	10.90
Metering Charge	PhP/meter/mo	48.95	0.00	48.95
Rate Reduction-LC	PhP/kWh	0.0000	-0.1459	0.1459
Rate Reduction-LC	PhP/cust/mo	0.0000	-1.39	1.39
Inter-class Cross Subsidy	PhP/kWh	-	-	-

3. On December 20, 2001, SURNECO filed with the Honorable Commission an application for the unbundling of its rate docketed as ERC Case

No. 2001-978 in compliance with the provisions of Republic Act No. 9136 [EPIRA] requiring every Distribution Utility to unbundle its rates, and prayed for an overall average tariff adjustment of PhP 0.9303/kWh. In a Decision dated December 29, 2003, the Honorable Commission approved SURNECO's application for the Unbundling of Rates with an approved Total Revenue of PhP 164,634,734 equivalent to an overall average tariff adjustment of PhP 0.1088 per kWh, but the impacts to end-users vary depending on the level of rates currently being charged. However, SURNECO's unbundled rates as approved by the Honorable Commission are no longer sufficient to allow SURNECO to achieve its mandate of rendering reliable, efficient, quality electric service to its consumer, and SURNECO has been continuously incurring huge financial losses, due to the following reasons:

3.a. SURNECO has not filed any rate increase application since unbundling of its rates and its operating expenses have considerably increased due to change/increase in prices and high cost of purchased materials;

3.b. Increase in payroll expenses due to the implementation of various wage orders and implementation of the reorganization under the new organizational structure or table of organization, which has remained pending for more than twenty (20) years and was only approved in September 2008;

3.c. Inclusion of real property tax assessments from 1998 up to the present;

3.d. Increase in operating costs due to the implementation of SURNECO's major capital expenditure projects to achieve a lower system's loss and a reliable, efficient, safe and quality services;

3.e. Based on the financial data and billing determinants for the test year 2007, SURNECO arrived at a revenue requirement for the different customer class based on the distribution system cost component, that resulted to the following data, to wit;

Table II – Comparison of Revenue Requirement

	UNIT	Proposed Revenue	Existing Revenue	Difference
Residential				
Distribution Charge	PhP/kWh	40,606,472	33,853,215	6,753,257
Supply Charge	PhP/kWh	22,371,811	19,867,627	2,504,184
Metering Charge				
PhP/customer/month	PhP/meter/mo	12,409,200	2,481,840	9,927,360
PhP/kWh	PhP/kWh	11,886,598	12,756,505	(869,907)
Rate Reduction-LC	PhP/kWh	0	-9,989,160	9,989,160
Inter-class Cross Subsidy	PhP/kWh	0	0	
TOTAL		87,274,080	58,970,026	28,304,054
Small Commercial				
Distribution Charge	PhP/kWh	12,071,621	8,425,682	3,645,940
Supply Charge	PhP/cust/mo	2,047,666	1,573,764	473,902
Metering Charge	PhP/meter/mo	2,223,767	1,238,022	985,745
Rate Reduction-LC	PhP/kWh	0	-2,188,140	2,188,140
Rate Reduction-LC	PhP/cust/mo	0	-106,765	106,765
Inter-class Cross Subsidy	PhP/kWh	0	0	
TOTAL		16,343,055	8,942,563	7,400,492
Large Commercial				
(3 Phase) Distribution Charge	PhP/kWh	50,184	0	50,184
Distribution Charge	PhP/kWh	4,452,557	4,336,987	115,570
Supply Charge	PhP/cust/mo	68,688	52,791	15,897
Metering Charge	PhP/meter/mo	74,595	41,529	33,066
Rate Reduction-LC	PhP/kWh	0	-1,126,310	1,126,310
Rate Reduction-LC	PhP/cust/mo	0	-3,574	3,574
Inter-class Cross Subsidy	PhP/kWh	0	0	
TOTAL		4,646,024	3,301,422	1,344,602
Industrial				
Transmission Charge	PhP/kWh	0	0	-
Distribution Charge	PhP/kWh	4,114	1,991	2,123
Distribution Charge	PhP/kWh	360,165	396,365	(36,201)
Supply Charge	PhP/cust/mo	1,623	1,247	376
Metering Charge	PhP/meter/mo	1,762	7,938	(6,176)
Rate Reduction-LC	PhP/kWh	0	-130,859	130,859
Rate Reduction-LC	PhP/cust/mo	0	-378	378
Inter-class Cross Subsidy	PhP/kWh	0	0	
TOTAL		367,664	276,305	91,358
P. Buildings				
Distribution Charge	PhP/kWh	3,945,966	3,411,665	534,301
Supply Charge	PhP/cust/mo	621,439	474,307	147,132
Metering Charge	PhP/meter/mo	674,883	243,220	431,663
Rate Reduction-LC	PhP/kWh	0	-885,803	885,803
Rate Reduction-LC	PhP/cust/mo	0	-26,640	26,640
Inter-class Cross Subsidy	PhP/kWh	0	0	
TOTAL		5,242,288	3,216,749	2,025,539
St. Light				
Distribution Charge	PhP/kWh	5,736,530	2,322,652	3,413,878
Supply Charge	PhP/cust/mo	1,199,610	909,469	290,141
Metering Charge	PhP/meter/mo	1,302,777	0	1,302,777
Rate Reduction-LC	PhP/kWh	0	-180,473	180,473
Rate Reduction-LC	PhP/cust/mo	0	-36,943	36,943
Inter-class Cross Subsidy	PhP/kWh	0	0	
TOTAL		8,238,918	3,014,705	5,224,213
GRAND TOTAL		122,112,029	77,721,770	44,390,258

Annualized Sales
Peso/kWh

63,085,090
0.6427

4. In accordance with the above mentioned proposed revenue and rates, SURNECO is seeking the immediate approval of the proposed revenue requirement per cost component, as shown below:

Table III – Summary of Proposed Revenue Requirement per Cost Component

PROPOSED REVENUE REQUIREMENT (in PhP)			
Account Name	Total Company	Electric Adj.	Proposed Revenue Requirement
	(1)	(2)	(3)
Payroll	19,341,582	27,542,038	46,883,620
Operation & Maintenance	34,256,827	1,968,421	36,225,247
Debt Service Plus Cash Working Capital	5,236,295	19,330,005	24,566,300
Less: Other Revenue Items	287,806	-	287,806
Reinvestment Fund (4%)	14,724,666	-	14,724,666
TOTAL REVENUE REQUIREMENT	73,271,564	48,840,464	122,112,029

4.a The proposed adjustment in payroll includes the implementation of various wage orders and the implementation of the newly approved organizational structure;

4.b. The adjustment in the Operation and Maintenance Expenses includes the increase in cost of materials purchased, both electrical and non-electrical supplies, tax assessment for the real properties of SURNECO from 1998 up to present, and expenses for Outside Services for the year 2007.

4.c The Debt Service represents the cost of amortizing the remaining loans not assumed by PSALM together with the new loans acquired after June, 2001 that SURNECO still has to amortize as reflected in the loan profile as of December 31, 2007 are as follows:

TYPE OF LOAN	PURPOSE	QUARTERLY	ANNUALLY	REMARKS
NEA				
RURAL ELECTRIFICATION:				
A - HQ		2,089.00	8,356.00	
C - HQ		38,413.00	153,652.00	
OEFC :				
Construction		8,268.00	33,072.00	
Construction (adv)		98,190.00	392,760.00	
Logistical		48,798.00	195,192.00	
EFSEC		439,402.00	1,757,608.00	
RESTRUCTURED		585,478.00	2,341,912.00	
SUB-TOTAL		1,220,638.00	4,882,552.00	
BANKS:				
PNB	Retirement Package	263,068.33	353,742.88	*Sept-Dec 07 only
TOTAL		1,483,706.33	5,236,294.88	

4.d The provision of the application of rate adjustment requires that 100% of the revenue earned from the use of asset-related properties of the electric cooperative shall be shared between the utility and its consumers. SURNECO complies with the said provision and proposes to share with the consumers the amount of PhP 287,805.97 as Other Revenue Items to be deducted from the proposed revenue requirement;

4.e. For purposes of implementing its major capital expenditure projects, SURNECO needs considerable amount of investment in order to attain an acceptable level of system loss, accommodate its load growth, and ensure power reliability and safe metering. The amount in this application is based on the calculated amount to finance the upgrading and relocation of substations, and the construction of power distribution lines and improvement of the existing electric power system;

5. Based on the actual kWh sales and number of consumer class from the audited financial statement and statistical information for the test year 2007, billing determinants and allocation factor used, SURNECO arrived at the functionalized and allocated cost to the different consumer classes, the resulting Summary of Revenue are as follows:

Table IV – Revenue Summary per Consumer Class and Function

Line No.	Class	Total Revenue	Distribution Related Revenue	Supply Related Revenue	Metering Related Revenue
	(a)	(b)	(e)	(f)	(g)
1	Residential	87,274,080	40,606,472	22,371,811	24,295,798
2	Small Commercial	16,343,055	12,071,621	2,047,666	2,223,767
3	Large Commercial (3Phase)	4,646,024	4,502,740	68,688	74,595
4	Industrial	367,664	364,279	1,623	1,762
5	P.Buildings	5,242,288	3,945,966	621,439	674,883
6	St. Light	8,238,918	5,736,530	1,199,610	1,302,777
	TOTAL	122,112,029	67,227,608	26,310,837	28,573,583

5.a. SURNECO proposes to re-classify the Commercial consumer classification into Small and Large Commercial consumers based on their monthly kW demand. A Consumer will be classified as “Large Commercial” consumer if the establishment has a monthly demand of at least 50 kW, while those with a monthly demand of less than 50 kW will be classified as “Small Commercial” consumers.

6. SURNECO has implemented the unbundled rates starting the billing period August, 2004 after the application was approved by the Honorable Commission in its Order/Decision dated December 29, 2003, with Motion for Reconsideration approved on June 21, 2004 and SURNECO have fully removed its cross-subsidies on December 2007

7. In compliance with Section 73 of R.A. 9136, SURNECO is implementing a lifeline rate discount and subsidy for the marginalized end-users based on test year 2007 frequency distribution of residential consumers to wit;

kWh Consumption	Level of Discount	
	Per Approved Unbundled Rates	Proposed in this Rate Application
0-15	50%	30%
16	40%	25%
17	30%	20%
18	20%	15%
19	10%	10%
20-40	5%	5%
Subsidy Charge to Non-Lifeline	PhP 0.052/kWh	PhP 0.05951/kWh

7.a The number of end-users that will benefit from said discounts represent Forty Six (46%) of the total number of residential consumers, while the kWh consumption represents 6.58% of the total kWh sales for the test year.

8. It should be stressed that SURNECO has prepared its proposed rate adjustment in accordance with the specific provision in Republic Act No. 9136 and the implementing guidelines issued by the Honorable Commission and in conformity with the Implementing Rules and Guidelines on pre-filing requirements, as follows, to wit:

- a. Application duly submitted to the various Local Government Units (LGU's) within the area coverage.
- b. Certification from the Local Government Units
- c. Affidavit of Publication from the local newspaper; and
- d. Issues of the local newspaper.

9. In support to the revised calculation of rate adjustment, SURNECO has prepared and attached the following documents as contained in the Uniform Filing Requirements:

- a. *Schedule A - Historical Cost by Function*
 - A1- *Cost by Customer Class – Distribution*
 - A2- *Cost by Customer Class – Supply*
 - A3- *Cost by Customer Class – Metering*
- b. *Schedule D- Functionalization Factors*
- c. *Schedule E- Class Allocation Factors and Ratios for*
 - *Distribution*
 - *Supply*
 - *Metering*
- d. *Schedule E1- System Data*
- e. *Schedule F1- Revenue Summary*
- f. *Schedule F3- Rate Class Definition*
- g. *Schedule F5- Proof of Revenue Statement*
- h. *Schedule F6- Rate Design Analysis*
- i. *Schedule H2- Proof of Revenue Using Existing Rates*
- j. *Schedule H3- Lifeline Rate Customer Class Revenue*
- k. *Schedule K- Rate Schedules for each Customer Class*

P R A Y E R

WHEREFORE, premises considered and in order to avoid irreparable losses which will ultimately result in the deterioration of its services, to the damage and prejudice of the public in general, and its member/consumers in particular, SURNECO respectfully prays of the Honorable Commission, that:

1. Pending hearing and final approval, in a PROVISIONAL AUTHORITY be granted to SURNECO to implement the herein submitted over-all tariff adjustment per customer class, as follows:

Table VI – Proposed Charges per Customer Class

		Residential	Small Commercial	Large Commercial	Industrial	Public Buildings	St. Light
Distribution Charge	PhP/kWh	1.0638	0.8088	0.5795	0.3994	0.6419	4.6376
Distribution Charge	PhP/kW	-	-	25.00	25.00	-	-
Supply Charge	PhP/kWh	0.5861	-	-	-	-	-
Supply Charge	PhP/cust/mo	-	45.07	45.07	45.07	45.07	45.07
Metering Charge	PhP/kWh	0.3114	-	-	-	-	-
Metering Charge	PhP/meter/mo	25.00	48.95	48.95	48.95	48.95	48.95
Rate Reduction-LC	PhP/kWh	-	-	-	-	-	-
Rate Reduction-LC	PhP/cust/mo	-	-	-	-	-	-
Inter-class Cross Subsidy	PhP/kWh	-	-	-	-	-	-
Total	PhP/kWh	1.9613	0.8088	0.5795	0.3994	0.6419	4.6376
Total	PhP/kW	-	-	25.00	25.00	-	-
Total	PhP/meter/mo	25.00	94.02	94.02	94.02	94.02	94.02

2. And after due notice and hearing and consideration, a Decision be issued **APPROVING PERMANENTLY** the over-all tariff adjustment (increase) per customer class as above-stated.

Other relief/s just and equitable under the premises are likewise prayed for.

Pasig City, Metro Manila, Philippines, 8 January 2008.

**DECHAVEZ BUGAYONG CONCEPCION
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