

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. 2016 -181 RC

**BATANGAS II ELECTRIC
COOPERATIVE, INC.
(BATELEC II),**

Applicant.

X-----X

D O C K E T E D

Date: **JAN 30 2017**

By: *[Signature]*

ORDER

On 21 October 2016, Batangas II Electric Cooperative, Inc. (BATELEC II) filed an *Application* for approval of the adjustment in rates pursuant to the tariff glide path (TGP) rules, with prayer for provisional authority.

BATELEC II alleged the following in its *Application*:

1. BATELEC II is a non-stock, non-profit electric cooperative, duly organized and existing under Philippine Laws with principal office address at Brgy. Antipolo del Norte, Lipa City, Batangas;
2. It holds an exclusive franchise from the National Electrification Commission, to operate an electric light and power distribution service in the cities of Lipa and Tanauan, and the municipalities of Alitagtag, Balete, Cuenca, Laurel, Lobo, Mabini, Malvar, Mataas na Kahoy, Padre Garcia, Rosario, San Jose, San Juan, Taysan, Talisay and Tingloy, all in the province of Batangas.;

THE ANTECEDENT RULES AND FACTS

3. In 2009, the Honorable Commission promulgated the Rules for Setting the Electric Cooperatives' Wheeling Rates (RSECWR);
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. Pursuant to the RSEC-WR, in 2009, BATELEC II filed with the Honorable Commission an application for approval of proposed adjustment in its rates, docketed as ERC Case No. 2009-164 RC;
6. The Honorable Commission approved BATELEC II's application, 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		

LEGAL BASIS FOR THE APPLICATION

7. On May 2, 2011, the Honorable Commission promulgated the Tariff Glide Path (TGP) Rules pursuant to Article 7 of the RSECWR whereby during the regulatory period, the rate of the Electric Cooperatives (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.

8. 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;

9. Under the TGP, 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. BATELEC II belongs to the Second Entrant Group.
10. 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.

THE PROPOSED RATE ADJUSTMENT

11. BATELEC II applied the methodology embodied in the TGP Rules, 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 2011	0.00%	0.00%	0.70%	0.70%	0.00%
Year 2012	0.00%	0.00%	1.10%	1.10%	0.00%
Year 2013	7.00%	5.40%	1.30%	2.90%	1.60%
Net Results				4.70%	1.60%

12. Application of the above values resulted in adjustments on the cooperative's DSM Rates, as follows:

A. WITH PERFORMANCE INCENTIVE "S"

CHARGES	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			124.12
Distribution System Charge	PhP/kWh	0.2877	0.3924	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		62.54	62.54
Supply System Charge	PhP/kWh	0.4334		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo	5.23	57.50	57.50
Metering System Charge	PhP/kWh	0.3623		

B. EXCLUDING PERFORMANCE INCENTIVE "S"

CHARGES	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			120.44
Distribution System Charge	PhP/kWh	0.2792	0.3808	
Supply Charges:				
Retail Customer Charge	PhP/Customer/ Mo		60.68	60.68
Supply System Charge	PhP/kWh	0.4206		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo	5.08	55.80	55.80
Metering System Charge	PhP/kWh	0.3515		

13. Consequently, applicant respectfully prays that it be allowed to implement either of the above two alternative calculated DSM rates, either provisionally during the pendency of the instant application or permanently by virtue of a final decision, effective January 2015;

SUPPORTING DATA AND DOCUMENTS

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

Annex	Nature of Document
A to A-2	Proposed TGP Calculation and supporting documents using the prescribed templates: Index "I" Calculation Efficiency Factor "X" Calculation Performance Incentive "S" Calculation
B	MFSR (Sections B and E)
C	Billing Determinants Template (kWh Sales, No. of Customers, kW Demand)
D	Sample Bills (per customer type)
E	Regional CPI
F	RFSC/Reinvestment Fund Utilization
G	Consumer Complaints (Complaint Tracking Form)
H	Audited Financial Statements (2010-2013)

**ALLEGATIONS IN SUPPORT OF THE PRAYER FOR
PROVISIONAL AUTHORITY**

15. Applicant repleads the foregoing allegations as may be material herein;
16. Applicant's current DSM rates as granted by the Honorable Commission, were implemented in three-year tranches starting way back January 2010, with the rate caps or initial tariffs being implemented only starting at the end of the three-year transition period;
17. 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 RSECWR are no longer sufficient to cover these inevitable costs;
18. Thus, the cooperative urgently needs additional funds to be able to cope with the rising costs of its operations;
19. Further, based on the provisions of the TGP Rules, for cooperatives belonging to the Second 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, 2015;
20. Considering the foregoing, applicant respectfully prays that while the instant application is pending, it be granted a provisional authority to implement the proposed rates, to be made effective starting January 1, 2015.

COMPLIANCE WITH PRE-FILING REQUIREMENTS

21. Finally, in compliance with the pre-filing requirements mandated under Rule 6, Sections 2 to 4 of 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 Marking	Nature of Document
I	Affidavit in Support of the Prayer for Provisional Authority
I to I-1	Proof of furnishing copies of the Application to the Sangguniang

	Panlungsod of Lipa and Sangguniang Panlalawigan of Batangas
J and series	Publication of the Application in a newspaper of general circulation in BATELEC II'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 pending evaluation of the instant application or after due notice and hearing, as the case may be, BATELEC 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 2015, as follows:

A. WITH PERFORMANCE INCENTIVE "S"

CHARGES	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			124.12
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CHARGES	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
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Retail Customer Charge	PhP/Customer/Mo		60.68	60.68
Supply System Charge	PhP/kWh	0.4206		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo	5.08	55.80	55.80
Metering System Charge	PhP/kWh	0.3515		

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 **02 March 2017 (Thursday) at ten o'clock in the morning (10:00 A.M.) at BATELEC II's principal office at Brgy. Antipolo Del Norte, Lipa City, Batangas.**

Accordingly, BATELEC II 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 their 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 their 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.

BATELEC II must also be prepared to make an expository presentation of the instant *Application*, aided by whatever communication medium that they 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, 24 January 2017.

FOR AND BY AUTHORITY
OF THE COMMISSION:

JOSE VICENTE B. SALAZAR
Chairman and CEO

LS: MLMG/PAR/APV/10 2016-181 batelec tgp

ERC
Office of the Chairman



A-2017-023-OC-08209

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COPY FURNISHED:

1. BATELEC II Electric Cooperative, Inc. (BATELEC II)
Applicant
Brgy. Antipolo Del Norte, Lipa City, Batangas
2. Dechavez & Evangelista Law Offices
Attention: Atty. Jeremiah D. Francisco
Counsel for Applicant BATELEC II
Units 1609-1610, Tycoon Centre
Pearl Drive, Ortigas Center, Pasig City
3. Office of the Mayor
Lipa City, Batangas
4. Local Government Unit (LGU) legislative body
Lipa City, Batangas
5. Office of the Mayor
Tanauan City, Batangas
6. Local Government Unit (LGU) legislative body
Tanauan City, Batangas
7. Office of the Mayor
Alitagtag, Batangas
8. Local Government Unit (LGU) legislative body
Alitagtag, Batangas
9. Office of the Mayor
Balete, Batangas
10. Local Government Unit (LGU) legislative body
Balete, Batangas
11. Office of the Mayor
Cuenca, Batangas
12. Local Government Unit (LGU) legislative body
Cuenca, Batangas
13. Office of the Mayor
Laurel, Batangas
14. Local Government Unit (LGU) legislative body
Laurel, Batangas
15. Office of the Mayor
Lobo, Batangas
16. Local Government Unit (LGU) legislative body
Lobo, Batangas
17. Office of the Mayor
Mabini, Batangas
18. Local Government Unit (LGU) legislative body
Mabini, Batangas
19. Office of the Mayor
Malvar, Batangas
20. Local Government Unit (LGU) legislative body
Malvar, Batangas
21. Office of the Mayor
Mataas na Kahoy, Batangas
22. Local Government Unit (LGU) legislative body
Mataas na Kahoy, Batangas
23. Office of the Mayor
Padre Garcia, Batangas

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24. Local Government Unit (LGU) legislative body
Padre Garcia, Batangas
25. Office of the Mayor
Rosario, Batangas
26. Local Government Unit (LGU) legislative body
Rosario, Batangas
27. Office of the Mayor
San Jose, Batangas
28. Local Government Unit (LGU) legislative body
San Jose, Batangas
29. Office of the Mayor
San Juan, Batangas
30. Local Government Unit (LGU) legislative body
San Juan, Batangas
31. Office of the Mayor
Taysan, Batangas
32. Local Government Unit (LGU) legislative body
Taysan, Batangas
33. Office of the Mayor
Talisay, Batangas
34. Local Government Unit (LGU) legislative body
Talisay, Batangas
35. Office of the Mayor
Tingloy, Batangas
36. Local Government Unit (LGU) legislative body
Tingloy, Batangas
37. Office of the Governor
Province of Batangas
38. Office of the LGU legislative body
Province of Batangas
39. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village, Makati City
40. Commission on Audit
Commonwealth Avenue, Quezon City
41. Senate Committee on Energy
GSIS Bldg. Roxas Blvd., Pasay City
42. House Committee on Energy
Batasan Hills, Quezon City
43. 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
44. Regulatory Operations Service
Energy Regulatory Commission
17th Floor, Pacific Center, San Miguel Avenue, Pasig City