

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 RULES, WITH
PRAYER FOR PROVISIONAL
AUTHORITY,**

ERC CASE NO. 2015 -107 RC

**PAMPANGA III ELECTRIC
COOPERATIVE, INC.
(PELCO III),**

Applicant.

X-----X

D O C K E T E D

Date: MAR. 01 2017.

By: [Signature]

ORDER

On 01 June 2015, Pampanga III Electric Cooperative, Inc. (PELCO III) filed an Application dated 22 May 2015 (Application) seeking the Commission's approval of its rate adjustment in accordance with the Rules Governing the Tariff Glide Path, pursuant to Article VII of the Rules for Setting the Rural Electric Cooperatives' Wheeling Rates (RSEC-WR).

PELCO III alleged the following in its *Application*:

THE APPLICANT

1. PELCO III is a non-stock, non-profit electric cooperative duly organized and existing under and by virtue of Philippine laws, with principal office at Mc Arthur Hi-way, Sampaloc, Apalit, Pampanga;
2. It holds an exclusive franchise issued by the National Electrification Commission to operate an electric light and power distribution system in certain municipalities of the province of Pampanga, namely: Apalit, Macabebe, Masantol, Minalin, San Simon and Sto. Tomas;

THE ANTECEDENT FACTS

3. In 2009, the Honorable Commission promulgated the Rules for Setting the Electric Cooperatives' Wheeling Rates (RSEC-WR);
4. The RSEC-WR provided 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. On November 8, 2011, PELCO III filed with the Honorable Commission an application for approval of its proposed Initial Tariffs pursuant to the RSEC-WR, docketed as ERC Case No. 2011-159 RC;
6. The Honorable Commission approved PELCO III's application in a decision dated March 12, 2012 and docketed on June 13, 2012, 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		

7. Further under Article 7 of the RSEC-WR, it is provided that during the regulatory period, the rate of the ECs per group shall be adjusted using the following formula, to wit:

$$\text{Tariff} \times (1 + \text{index "I"} - \text{Efficiency Factor "X"} + \text{Performance Incentive "S"})$$

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 Honorable 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.
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 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.

12. In its decision in ERC Case No. 2011-159 RC, the Honorable Commission directed PELCO III to implement its revised rates based on the RSEC-WR starting January 2012 and ending December 2014 and emphasized that the implementation of its transition rates coincides with the first regulatory year of the TGP. In the said decision, PELCO III was grouped with the Third Entrant Group under the TGP Rules, and directed to file its application for rate adjustment pursuant thereto within the timeline set for ECs belonging to the Third Entrant Group. Hence, this application.

THE PROPOSED RATE ADJUSTMENT

13. Applying the methodology embodied in the TGP Rules, PELCO III 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	0.00%	0.00%	0.00%	0.00%	0.00%
Year 2014	0.00%	0.00%	0.80%	0.80%	0.00%
Year 2015	0.75%	0.60%	0.80%	0.95%	0.15%
Net Results				1.75%	0.15%

14. Applying the above values resulted in adjustments on PELCO III's DSM Rates, as follows:

A. WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			121.0957
Distribution System Charge	PhP/kWh	0.2807	0.3828	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		61.0126	61.0126
Supply System Charge	PhP/kWh	0.4229		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.1074	56.0993	56.0993
Metering System Charge	PhP/kWh	0.3534		

B) EXCLUDING PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			118.7247

Distribution System Charge	PhP/kWh	0.2752	0.3754	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		59.8180	59.8180
Supply System Charge	PhP/kWh	0.4146		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.0074	55.0009	55.0009
Metering System Charge	PhP/kWh	0.3465		

15. Consequently, applicant respectfully prays for the approval of the foregoing calculated DSM rates.

SUPPORTING DATA AND DOCUMENTS

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

Annex	Nature of Document
	Proposed TGP Calculation and supporting documents using the prescribed templates:
A	Index "I" Calculation
A-2	Efficiency Factor "X" Calculation
A-3	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(2010-2104)
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

17. Applicant repleads the foregoing allegations as may be material herein;

18. Applicant's current DSM rates were implemented starting way back January 2012;
19. 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 RSEC-WR are no longer sufficient to cover these inevitable costs;
20. Thus, the cooperative urgently needs additional funds to be able to cope with the rising costs of its operations;
21. Further, based on the provisions of the TGP Rules, for cooperatives belonging to the Third 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, 2016;
22. Considering the foregoing, applicant respectfully 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

23. Finally, in compliance with 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	Nature of Document
I	Affidavit in Support of the Prayer for Provisional Authority
J to J-1	Proof of furnishing copies of the Application to the Sangguniang Bayan of Apalit and Sangguniang Panlalawigan of Pampanga
K and series	Proof of publication of the Application in a newspaper of general circulation in PELCO III's franchise area or where its principally operates

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, PELCO III 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			121.0957
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Retail Customer Charge	PhP/Meter/Mo.	5.1074	56.0993	56.0993
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	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
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Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.0074	55.0009	55.0009
Metering System Charge	PhP/kWh	0.3465		

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 **06 April 2017 (Thursday) at two o'clock in the afternoon (2:00 P.M.), at PELCO III's principal office at Mc Arthur Hi-way, Sampaloc, Apalit, Pampanga.**

Accordingly, PELCO III 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 PELCO III's 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 PELCO III's franchise area, by any other means available and appropriate;
- 4) Furnish with copies of the *Application*, 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 the 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 the *Application*, 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 submit the required Pre-Trial Brief and Judicial Affidavits of its witnesses 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.

PELCO III 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.

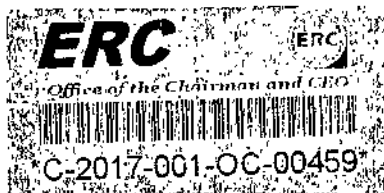
SO ORDERED.

Pasig City, 16 February 2017.

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSE VICENTE B. SALAZAR
Chairman and CEO


LS: MCC/ARC/PAR/APV



COPY FURNISHED:

1. Atty. Jeremiah D. Francisco
Counsel for PELCO III
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2. Pampanga III Electric Cooperative, Inc. (PELCO III)
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4. Commission on Audit
Commonwealth Avenue
Quezon City, Metro Manila
5. Senate Committee on Energy
GSIS Bldg. Roxas Blvd., Pasay City
Metro Manila
6. House Committee on Energy
Batasan Hills, Quezon City, Metro Manila
7. Office of the Provincial Governor
Province of Pampanga
8. Office of the Municipal Mayor
Apalit, Pampanga
9. Office of the Sangguniang Bayan
Apalit, Pampanga
10. Office of the Municipal Mayor
Macabebe, Pampanga
11. Office of the Sangguniang Bayan
Macabebe Pampanga
12. Office of the Municipal Mayor
Masantol, Pampanga
13. Office of the Sangguniang Bayan
Masantol, Pampanga
14. Office of the Municipal Mayor
San Simon, Pampanga
15. Office of the Sangguniang Bayan
San Simon, Pampanga
16. Office of the Municipal Mayor
Sto. Tomas, Pampanga
17. Office of the Sangguniang Bayan
Sto. Tomas, Pampanga
18. Office of the Municipal Mayor
Minalin, Pampanga
19. Office of the Sangguniang Bayan
Minalin, Pampanga
20. Regulatory Operations Service
Energy Regulatory Commission
17th Floor, Pacific Center, San Miguel Avenue, Pasig City