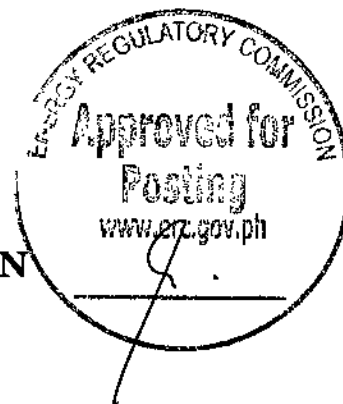


Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



**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 -122 RC

**SAMAR II ELECTRIC
COOPERATIVE, INC.
(SAMELCO II),**

Applicant.

X-----X

D O C K E T E D

Date: **MAR 21 2017**

By: W

ORDER

On 29 June 2015, Samar II Electric Cooperative, Inc. (SAMELCO II) filed an Application dated 15 June 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).

SAMELCO II alleged the following in its *Application*:

THE APPLICANT

1. SAMELCO II is a non-stock, non-profit electric cooperative, duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office at Brgy. Arado, Paranas, Samar;
2. It holds an exclusive franchise issued by the National Electrification Commission, to operate an electric light and power distribution service in the City of Catbalogan and fifteen (15) municipalities in the province of Samar, namely: Jiabong, Motiong, Paranas, San Sebastian, Hinabangan, Calbiga, Pinabacdao, Villareal, Talalora, Sta Rita, Basey, Marabut, Daram, San Jose De Buan and Zumarraga.

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 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. In the same year, SAMELCO II filed with the Honorable Commission an application for approval of its proposed adjustment in rates pursuant to the RSEC-WR, docketed as ERC Case No. 2009-083 RC;
6. In the said application, the Honorable Commission granted the cooperative provisional authority to implement the proposed rates in three-year tranches, with the following rate caps or initial tariffs on the Distribution, Supply and Metering (DSM) Charges being implemented starting at the end of the transition period, to wit:

CHARGES	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			267.90
Distribution System Charge	PhP/kWh	.8449	.9259	
Supply Charges:				
Retail Customer Charge	PhP/Customer /Mo		40.15	40.15
Supply System Charge	PhP/kWh	.7732		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo	5.00	28.72	28.72
Metering System Charge	PhP/kWh	.4569		

7. On the other hand, Article 7 of the RSEC-WR provides that during the regulatory period, the rate of the 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.

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. SAMELCOI QUEZELCO II belongs to the Third Entrant Group;
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:

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

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 starting on the Fourth Year of the current Regulatory Period.

THE PROPOSED RATE ADJUSTMENT

12. Applying the methodology embodied in the TGP Rules, SAMELCO II 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%	1.20%	1.20%	0.00%
Year 2014	5.26%	0.00%	0.00%	5.26%	5.26%
Year 2015	3.79%	0.00%	1.10%	4.89%	3.79%
Net Results				11.34%	9.04%

13. Applying the above values resulted in adjustments on SAMELCO II's DSM Rates, as follows:

A. WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			298.29
Distribution System Charge	PhP/kWh	.9407	1.0309	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		44.70	44.70
Supply System Charge	PhP/kWh	.8609		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.57	31.98	31.98
Metering System Charge	PhP/kWh	.5087		

B) EXCLUDING PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			292.13
Distribution System Charge	PhP/kWh	.9213	1.0096	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		43.78	43.78
Supply System Charge	PhP/kWh	.8431		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.45	31.32	31.32
Metering System Charge	PhP/kWh	.4982		

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

SUPPORTING DATA AND DOCUMENTS

15. 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
A A-1 A-2	Proposed TGP calculation and supporting documents using the prescribed templates: Index "I" Calculation Efficiency Factor "X" Calculation 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 -2014)
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

16. Applicant repleads the foregoing allegations as may be material herein;
17. Applicant's current DSM rates which were granted by the Honorable Commission provisionally, 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;
18. 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 Electrification Program (SEP) of President Benigno Simeon C. Aquino III, 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;
19. Thus, the cooperative urgently needs additional funds to be able to cope with the rising costs of its operations;

20. Further, based on the provisions of the TGP Rules, for cooperatives belonging to the Third Entrant Group, their initial tariffs shall be adjusted at the start of the fourth regulatory year of the First Regulatory Period, which is January 1, 2016;
21. 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

22. 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 Paranas and Sangguniang Panlalawigan of Samar
K and series	Proof of publication of the Application in a newspaper of general circulation in SAMELCO II's franchise area or where it 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, SAMELCO 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 1, 2016, to wit:

A. WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			298.29
Distribution System Charge	PhP/kWh	.9407	1.0309	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		44.70	44.70

Supply System Charge	PhP/kWh	.8609		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.57	31.98	31.98
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B) EXCLUDING PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			292.13
Distribution System Charge	PhP/kWh	.9213	1.0096	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		43.78	43.78
Supply System Charge	PhP/kWh	.8431		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.45	31.32	31.32
Metering System Charge	PhP/kWh	.4982		

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 **27 April 2017 (Thursday) at ten o'clock in the morning (10:00 A.M.), at SAMELCO II's principal office at Barangay Arado, Paranas, Samar.**

Accordingly, SAMELCO 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 SAMELCO II'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 SAMELCO II'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.

SAMELCO II 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, 13 March 2017.

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSE VICENTE B. SALAZAR
Chairman and CEO



LS:  CC/ARG/PAR/APV

COPY FURNISHED:

C-2017-020-OC-00699

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5. The Senate Committee on Energy Senate of the Philippines
GSIS Building, Roxas Blvd., Pasay City
6. The House Committee on Energy House of Representatives
Batasan Hills, Quezon City
7. The Provincial Governor
Province of Samar
8. The Local Government Unit (LGU) Legislative Body
Province of Samar
9. The City Mayor
Catbalogan, Samar
10. The LGU Legislative Body
Catbalogan, Samar
11. The Municipal Mayor
Jiabong, Samar

12. The LGU Legislative Body
Jiabong, Samar
13. The Municipal Mayor
Motiong, Samar
14. The LGU Legislative Body
Motiong, Samar
15. The Municipal Mayor
Paranas, Samar
16. The LGU Legislative Body
Paranas, Samar
17. The Municipal Mayor
San Sebastian, Samar
18. The LGU Legislative Body
San Sebastian, Samar
19. The Municipal Mayor
Hinabangan, Samar
20. The LGU Legislative Body
Hinabangan, Samar
21. The Municipal Mayor
Calbiga, Samar
22. The LGU Legislative Body
Calbiga, Samar
23. The Municipal Mayor
Pinabacdao, Samar
24. The LGU Legislative Body
Pinabacdao, Samar
25. The Municipal Mayor
Villareal, Samar
26. The LGU Legislative Body
Villareal, Samar
27. The Municipal Mayor
Sta. Rita, Samar
28. The LGU Legislative Body
Sta. Rita, Samar
29. The Municipal Mayor
Almagro, Samar
30. The LGU Legislative Body
Almagro, Samar
31. The Municipal Mayor
Talalora, Samar
32. The LGU Legislative Body
Talalora, Samar
33. The Municipal Mayor
Basey, Samar

34. The LGU Legislative Body
Basey, Samar
35. The Municipal Mayor
Marabut, Samar
36. The LGU Legislative Body
Marabut, Samar
37. The Municipal Mayor
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San Jose de Buan, Samar
39. The Municipal Mayor
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