

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



**IN THE MATTER OF THE
APPLICATION FOR THE
APPROVAL OF
ADJUSTMENT IN RATES
BASED ON THE TARIFF
GLIDE PATH FOR THE
FOURTH TO SIXTH
REGULATORY YEARS OF
FIRST REGULATORY
PERIOD FOR THE THIRD
ENTRANT GROUP
UNDER THE TARIFF
GLIDE PATH (TGP)
RULES, WITH MOTION
FOR PROVISIONAL
AUTHORITY**

ERC CASE NO. 2018-068 RC

**QUEZON II ELECTRIC
COOPERATIVE, INC.
(QUEZELCO II),**

Applicant.

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DOCKETED
Date: JUL 06 2018
By: [Signature]

ORDER

On 28 June 2018, the Quezon II Electric Cooperative, Inc. (QUEZELCO II) filed an *Application* dated 15 June 2018, seeking the approval of adjustment in rates based on the tariff glide path for the fourth to sixth regulatory years of first regulatory period for the third entrant group under the Tariff Glide Path (TGP) Rules, with a motion for Provisional Authority.

QUEZELCO II alleged the following in its *Application*:

THE APPLICANT

1. QUEZELCO 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 the Brgy. Gumian, Infanta, Quezon;

2. It holds an exclusive franchise issued by the National Electrification Commission, to operate an electric light and power distribution service in certain municipalities of the province of Quezon, namely: Burdeos, Gen. Nakar, Infanta, Jomalig, Panukulan, Patnanungan, Polillo and Real.

NATURE OF APPLICATION

3. The instant Application is being filed for the approval of Applicant's proposed adjustment in its Distribution, Supply and Metering (DSM) Rates based on the tariff glide path on the fourth to sixth regulatory years of the First Regulatory Period of the electric cooperatives belonging to the Third Entrant Group under the Tariff Glide Path Rules (TGP Rules), to be implemented on the first to third regulatory years of the Second Regulatory Period for electric cooperatives belonging to the Third Entrant Group under the TGP Rules and pursuant to said Rules, as well as other pertinent laws and rules.

STATEMENT OF FACTS

4. Sometime in 2015, Applicant filed with the Honorable Commission an application for approval of the proposed adjustment in its DSM Rates pursuant to the TGP Rules, docketed as ERC Case No. 2015 - 123 RC;
5. In the said application, Applicant prayed for approval of either of the following two (2) proposed alternative DSM rates, to be implemented effective January 2016, to wit:

A. WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE	
		Residential	Low Voltage
Distribution Charges:			
Demand Charge	PhP/kW		
Distribution System Charge	PhP/kWh	1.0937	1.1994
Supply Charges:			
Retail Customer Charge	PhP/Customer/Mo		44.3615
Supply System Charge	PhP/kWh	1.0652	
Metering Charges:			
Retail Customer Charge	PhP/Meter/Mo.	5.1800	30.1683
Metering System Charge	PhP/kWh	0.6001	

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B. EXCLUDING PERFORMANCE INCENTIVE “S”

	UNITS	CUSTOMER TYPE	
		Residential	Low Voltage
Distribution Charges:			
Demand Charge	PhP/kW		
Distribution System Charge	PhP/kWh	1.0557	1.1577
Supply Charges:			
Retail Customer Charge	PhP/Customer/Mo		42.82
Supply System Charge	PhP/kWh	1.0282	
Metering Charges:			
Retail Customer Charge	PhP/Meter/Mo.	5.0000	29.12
Metering System Charge	PhP/kWh	0.5792	

6. Foregoing application was Applicant’s initial application for DSM rate adjustment pursuant to the TGP Rules, under which electric cooperatives are given an opportunity to adjust their rates once every three (3) years, which may occur at the start of the fourth year of the First Regulatory Period and every three (3) years thereafter;
7. Applicant belongs to the Third Entrant Group under the TGP Rules, whose first regulatory period is from January 1, 2013 to December 31, 2018. Having filed its initial application for DSM rate adjustment in 2015 intended to take effect on the fourth year of the First Regulatory Period, the cooperative is filing the instant Application in the current year 2018, the sixth regulatory year of the First Regulatory Period, for the proposed adjustment of its DSM rates to be implemented on the first to the third regulatory years of the Second Regulatory Period for the Third Entrant Electric Cooperatives under the TGP Rules;
8. Applicant’s first TGP application under ERC Case No. 2015-123 RC is still pending evaluation of the Honorable Commission but in spite thereof, the cooperative adopted and used the proposed DSM rates in the said application as its bases in computing the proposed adjustment in the instant Application.

THE PROPOSED DSM RATE ADJUSTMENT

9. Under the TGP Rules, the concerned electric cooperative shall use the following formula in determining the TGP for the fourth to sixth years of the Regulatory Period, to wit:

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

Where:

$$TGP_n = I_n - X_n + S_n$$

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n= the fourth year of the Regulatory Period and succeeding Regulatory Periods

The TGP calculated for each of the three years will be summed to determine the possible rate adjustment starting on the First Year of the next Regulatory Period.

10. Applying the methodology embodied in the TGP Rules, Applicant calculated the values of the "I", "X" and "S" and came up with the following results, to wit:

	"I"(B)	"X"(B)	"S"(B)	TGP B	TGP B (excluding S)
YEAR 2016	0.00%	0.00%	1.10%	1.10%	0.00%
YEAR 2017	0.00%	0.00%	2.30%	2.30%	0.00%
YEAR 2018	0.00%	2.56%	2.10%	-0.46%	-2.56%
TOTAL				2.94%	-2.56%

11. Utilizing the above values will result in adjustments in Applicant's DSM Rates covering the first to third years of the Second Regulatory Period for electric cooperatives belonging to the Third Entrant Group, as follows:

A. WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			
Distribution System Charge	PhP/kWh	1.1258	1.2346	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		45.6600	
Supply System Charge	PhP/kWh	1.0965		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.3300	31.0500	
Metering System Charge	PhP/kWh	0.6177		

B. EXCLUDING PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/kW			
Distribution System Charge	PhP/kWh	1.0287	1.1280	

Supply Charges:			
Retail Customer Charge	PhP/Customer/Mo		41.7200
Supply System Charge	PhP/kWh	1.0019	
Metering Charges:			
Retail Customer Charge	PhP/Meter/Mo.	4.8719	28.3700
Metering System Charge	PhP/kWh	0.5644	

- C. Consequently, Applicant respectfully prays that it be allowed to implement either of the above two calculated alternative DSM rates, effective January 1, 2019 and up to December 31, 2021.

SUPPORTING DATA AND DOCUMENTS

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

Annex Markings	Nature of Document
A to A-2	Proposed TGP Calculations and supporting documents using the prescribed templates: Index "I" Calculation Efficiency Factor "X" Calculation Performance Incentive "S" Calculation
B	MFSR - Sections B and E (2014-2017)
C	Billing Determinants Template (2014-2017 kWh Sales, No. of Customers and kW Demand)
D	Sample Bills per customer type (2014-2017)
E	Regional CPI (2014-2017)
F	RFSC Utilization (2015-2017)
G	Consumer Complaints Summary or Tracking Form (2015-2017)
H	Audited Financial Statements (2015-2017)

ALLEGATIONS IN SUPPORT OF THE MOTION FOR PROVISIONAL AUTHORITY

- E. Applicant respectfully repleads herein the foregoing allegations;
- F. Applicant respectfully prays that it be allowed to implement the proposed rate adjustment starting January 1, 2019, considering that it is expressly prescribed under the TGP Rules' provision on Regulatory Period and Process, which provides in part, as follows:

"2. Regulatory Period and Process

2.1 On or before each Fourth month of the Third and Sixth regulatory year of their respective Regulatory Periods, the electric cooperative may file before the Commission an application for a rate adjustment reflecting the values for the "I", "X" and "S" as determined in accordance with these rules. **The**

initial tariff caps of the respective ECs shall be adjusted by the “I, “X” and “S” effective at the start of the Fourth Regulatory Year of the First Regulatory Period and succeeding Regulatory Periods and the First Year of the Second Regulatory Period and succeeding Regulatory Periods. However, the adjustment for the First Year of the Second Regulatory Period and succeeding Regulatory Periods will be subject to the revised tariff caps calculated in accordance with Section 3 of these Rules“ (Emphasis ours)

16. Under the TGP Rules, 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 and the start of the Fourth Regulatory Year is January 1, 2016. Applicant belongs to the Third Entrant Group, accordingly, its initial DSM Rates under the TGP Rules should be adjusted through the proposed TGP B Rates starting January 1, 2019;
17. Aside from the foregoing, Applicant further prays for provisional authority to implement the proposed rates effective January 1, 2019 and even during the pendency of the instant application, considering that Applicant urgently needs additional funds to be able to cope with the rising costs of its operations. Among the major factors that added to its operating costs is the implementation of the Sitio Energization Program (SEP) of the government consisting of massive extension of its distribution lines up to the remotest and far-flung areas which considerably increased its operations and maintenance costs and likewise resulted to increased system losses which the cooperative is constrained to absorb;
18. Further, the rising cost of materials, tools, equipment, supplies, fuel and other costs incidental to its daily operations has considerably increased these past several years and the funds being generated from Applicant's DSM charges, the rates of which were granted by the Honorable Commission way back in Year 2010 by virtue of the Rules for Setting the Electric Cooperatives' Wheeling Rates (RSEC-WR), are no longer sufficient to cover those costs, and if not addressed accordingly with the further adjustment of its rates, Applicant's service to its consumers will be prejudiced.
19. Considering foregoing, it is respectfully prayed that Applicant be allowed to implement the proposed DSM Rates effective January 1, 2019, even while the instant application is pending hearing or evaluation of the Honorable Commission.

COMPLIANCE WITH PRE-FILING REQUIREMENTS

20. Finally, in compliance with the pre-filing requirements under 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 Markings	Nature of Document
I	Judicial Affidavit in support of the Motion for Provisional Authority
J and series	Proof furnishing copies of the Application to the Sangguniang Bayan of Infanta and Sangguniang Panlalawigan of Quezon
K and series	Proof of publication of the Application in a newspaper of general circulation in QUEZELCO II's franchise area or where it principally operates

PRAYER

WHEREFORE, premises considered, it is most respectfully prayed of this Honorable Commission that effective January 2019, whether upon initial evaluation hereof or after due notice and hearing, Applicant QUEZELCO II be allowed to implement either of the following two (2) alternative proposed new rates for its Distribution, Supply and Metering (DSM) Charges, to wit:

A. WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/Kw			
Distribution System Charge	PhP/kWh	1.1258	1.2346	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		45.6600	
Supply System Charge	PhP/kWh	1.0965		
Metering Charges:				
Retail Customer Charge	PhP/Meter/Mo.	5.3300	31.0500	
Metering System Charge	PhP/kWh	0.6177		

B. EXCLUDING PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE		
		Residential	Low Voltage	Higher Voltage
Distribution Charges:				
Demand Charge	PhP/Kw			
Distribution System Charge	PhP/kWh	1.0287	1.1280	
Supply Charges:				
Retail Customer Charge	PhP/Customer/Mo		41.7200	
Supply System Charge	PhP/kWh	1.0019		
Metering Charges:				

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Retail Customer Charge	PhP/Meter/Mo.	4.8719	28.3700	
Metering System Charge	PhP/kWh	0.5644		

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 evidentiary hearing on **31 July 2018 (Tuesday) at two o'clock in the afternoon (02:00 PM), at the QUEZELCO II's Principal Office in Brgy. Gumian Infanta, Quezon.**

Accordingly, Applicant 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 its 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 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 the consumers within the affected area of the filing of the *Application*, its reasons therefor, and of the scheduled hearing thereon, 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 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 were 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 the consumers within the affected franchise area of the filing of the *Application*, its reasons therefor, and of the scheduled hearing thereon;
- 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 proof of compliance with the requirements of the Commission.

Applicants and all interested parties are also required to submit, at least five (5) days before the date of the 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 therefor; 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.

QUEZELCO 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, 03 July 2018.

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Commissioner


LS: JTB/LSE/APV

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Copy Furnished:

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Applicant
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3. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village, Makati City
4. Commission on Audit
Commonwealth Avenue, Quezon City
5. Senate Committee on Energy
GSIS Bldg. Roxas Blvd., Pasay City
6. House Committee on Energy
Batasan Hills, Quezon City
7. 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
8. Office of the Governor
Province of Quezon
9. Office of the LGU legislative body
Province of Quezon
10. Office of the Mayor
Burdeos, Quezon
11. Local Government Unit (LGU) legislative body
Burdeos, Quezon
12. Office of the Mayor
General Nakar, Quezon
13. Office of the LGU legislative body
General Nakar, Quezon
14. Office of the Mayor
Infanta, Quezon
15. Office of the LGU legislative body
Infanta, Quezon
16. Office of the Mayor
Jomalig, Quezon
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Jomalig, Quezon
18. Office of the Mayor
Panukulan, Quezon
19. Office of the LGU legislative body
Panukulan, Quezon
20. Office of the Mayor
Patnanungan, Quezon

21. Office of the LGU legislative body
Patnanungan, Quezon
22. Office of the Mayor
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23. Office of the LGU legislative body
Polillo, Quezon
24. Office of the Mayor
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