

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



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF THE
ADJUSTMENT IN RATES
PURSUANT TO THE TARIFF
GLIDE PATH RULES, WITH
PRAYER FOR PROVISIONAL
AUTHORITY,**

ERC Case No. 2015-164 RC

**LEYTE III ELECTRIC
COOPERATIVE INC.
(LEYECO III),
Applicant.**

D O C K E T E D
Date: MAR 20 2017
By: [Signature]

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NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 15 September 2015, Leyte III Electric Cooperative, Inc. (LEYECO III) filed an *Application* dated 03 September 2015 (Application) for the approval of the adjustment in rates pursuant to the Tariff Glide Path (TGP) Rules, with prayer for provisional authority.

LEYECO III alleged the following in its *Application*:

1. LEYECO III is a non-stock, non-profit electric cooperative duly organized and existing under and by virtue of Presidential Decree 269, as amended, with capacity to sue and be sued, with principal office at Brgy. San Roque, Tunga, Leyte, where it may be served with summons and other legal processes, represented in this instance by its General Manager, ALLAN L. LANIBA, who was authorized to represent and file this application per Board Resolution nos. 2015-05-75 and 2015-05-74 dated May 30, 2015, copy of which are hereto attached as "Annex A" and "Annex B", respectively. Likewise attached herein is the LEYECO III Board Resolution no. 2015-05-76 engaging the services of undersigned counsel for this purpose, marked as "Annex C";

2. Applicant is a holder of exclusive franchise issued by National Electrification Administration (NEA) to operate an electric light and power distribution service in the north-eastern part of Leyte covering nine (9) municipalities, namely: Capoocan, Carigara, Barugo, San Miguel, Tunga, Alangalang, Jaro, Santa Fe and Pastrana. A copy of LEYECO III's Certificate of Franchise is hereto attached as "**Annex D**".

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. Pursuant to the RSEC-WR, in 2009, LEYECO III filed with the Honorable Commission an application for approval of proposed adjustment in its rates, docketed as ERC Case No. 2009- 108RC;
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
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	

7. It is provided under Article 7 of the RSEC-WR 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 BASES FOR THE APPLICATION

A. The Tariff Glide Path Rules

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. LEYECO III 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:

$$TGP_A = TGP_n + TGP_{n+1} TGP_{n+2} \text{ where}$$

$$TGP_n = I_n - X_n + S_n$$

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.

B. The RSEC-WR

12. Under Article 3.1 of the RSEC-WR, for electric cooperatives belonging to Group A to which LEYECO III belongs, the Initial DSM Tariffs for Higher Voltage Customers are as follows, to wit:

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Particulars	Units	Distribution	Supply	Metering
Higher Voltage	PhP/kW PhP/cust/mo.	302.51	42.82	29.12

13. As noted in Paragraph 6 above however, the rates granted to LEYECO III do not include rates for Higher Voltage Customers;
14. The reason for the non-inclusion was that, at the time of filing said application, LEYECO III did not have any existing customers which could be classified as Higher Voltage Customers, and the cooperative was not expecting to have in the near future, any customers which would fall within the category of Higher Voltage hence, the exclusion in said application for approval of rates for higher voltage customers;

THE PROPOSED RATE ADJUSTMENT

15. Applying the above values pursuant to the TGP Rules resulted in adjustments on LEYECO III's DSM Rates, as follows:

A) WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE	
		Residential	Low Voltage
Distribution Charges:			
Demand Charge	PhP/kW		
Distribution System Charge	PhP/kWh	1.3716	1.5041
Supply Charges:			
Retail Customer Charge	PhP/Customer/Mo		55.63
Supply System Charge	PhP/kWh	1.3358	
Metering Charges:			
Retail Customer Charge	PhP/Meter/Mo.	6.50	37.83
Metering System Charge	PhP/kWh	0.7525	

B) EXCLUDING PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE	
		Residential	Low Voltage
Distribution Charges:			
Demand Charge	PhP/kW		
Distribution System Charge	PhP/kWh	1.3504	1.4809
Supply Charges:			
Retail Customer Charge	PhP/Customer/Mo		54.78
Supply System Charge	PhP/kWh	1.3153	
Metering Charges:			
Retail Customer Charge	PhP/Meter/Mo.	6.40	37.25
Metering System Charge	PhP/kWh	0.7409	

16. Consequently, the cooperative respectfully prays for the approval of the above calculated DSM rates.

SUPPORTING DATA AND DOCUMENTS

17. 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
E	Proposed TGP Calculation and supporting documents using the prescribed templates:
E-1	Index "I" Calculation
E-2	Efficiency Factor "X" Calculation
E-3	Performance Incentive "S" Calculation
F	Monthly Financial and Statistical Report (MFSR) – Sections B and E (2010-2014)
G	Billing Determinants Template (kWh Sales, Number of Customers, kW Demand) (2010-2104)
H	Sample Bills (per customer type) (2010-2014)
I	Regional CPI (2011-2014)
J	RFSC/Reinvestment Fund Utilization (2012-2014)

K	Consumer Complaints (Summary or Tracking Form) (2012-2014)
L	Audited Financial Statements (2010-2014)

**MOTION FOR THE ISSUANCE OF PROVISIONAL
AUTHORITY**

18. All the forgoing allegations are repleaded by reference in support of the instant Motion for the issuance of provisional authority;
19. Applicant's current DSM rates for Residential and Lower Voltage Customers as granted by the Honorable Commission based on the RESC-WR, were implemented by the cooperative in three (3) yearly tranches, which started way back in January 2010;
20. 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;
21. Thus, the cooperative urgently needs additional funds to be able to cope with the rising costs of its operations;
22. 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;
23. 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. In support to the prayer for Provisional Authority, the Judicial Affidavit of LEYECO III's Finance Department Manager is hereto attached and made integral part of this application and marked as "**Annex M**"

COMPLIANCE WITH PRE-FILING REQUIREMENTS

24. Finally, LEYECO III has duly complied with the pre-filing requirements as required in Section 2, Rule 6, of ERC Rules of Practice and Procedure, by furnishing copies of the application together with its supporting annexes to the Sangguniang Bayans of 9 municipalities in the Province of Leyte. It likewise published the Application in its entirety in a newspaper of general circulation in the Province of Leyte, where the franchise area of Applicant LEYECO III is operating. Proofs of pre-filing compliance are hereby attached to form as integral part hereof, to wit:

Annex	Nature of Document
N to W	Proof of furnishing copies of the Application to Sangguniang Bayan of Capoocan, Carigara, Barugo, San Miguel, Tunga, Alangalang, Jaro, Santa Fe and Pastrana; and Sangguniang Panlalawigan of Leyte
X to Y	Proof of publication of the Application in a newspaper of general circulation in LEYECO III'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, LEYECO III be allowed to implement effective January 1, 2016 either of the following two (2) alternative proposed new rates for Distribution, Supply and Metering (DSM) Charges for Residential, Low Voltage Customers, to wit :

A. WITH PERFORMANCE INCENTIVE "S"

	UNITS	CUSTOMER TYPE	
		Residential	Low Voltage
Distribution Charges:			
Demand Charge	PhP/kW		
Distribution System Charge	PhP/kWh	1.3716	1.5041
Supply Charges:			
Retail Customer Charge	PhP/Customer/Mo		55.63
Supply System Charge	PhP/kWh	1.3358	
Metering Charges:			
Retail Customer Charge	PhP/Meter/Mo.	6.50	37.83

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Metering System Charge	PhP/kWh	0.7525	
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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	1.3504	1.4809
Supply Charges:			
Retail Customer Charge	PhP/Customer /Mo		54.78
Supply System Charge	PhP/kWh	1.3153	
Metering Charges:			
Retail Customer Charge	PhP/Meter/Mo.	6.40	37.25
Metering System Charge	PhP/kWh	0.7409	

Other reliefs, just and equitable under the premises are likewise most respectfully prayed for.

The Commission has set the *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **25 April 2017 (Tuesday) at ten o'clock in the morning (10:00 A.M.) at the LEYECO III's Main Office in Brgy. San Roque, Tunga, Leyte.**

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- i. The petitioner's name and address;


- ii. The nature of petitioner's interest in the subject matter of the proceeding and the way and manner in which such interest is affected by the issues involved in the proceeding; and
- iii. A statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the case may file their Opposition or Comment thereon at any stage of the proceeding before Applicant rests its case, subject to the requirements under Rule 9 of the 2006 Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name and address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

All such persons who wish to have a copy of the *Application* may request from Applicant that they be furnished with the same, prior to the date of the initial hearing. Applicant is hereby directed to furnish all those making such request with copies of the *Application* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Application* and other pertinent records filed with the Commission during the standard office hours.

WITNESS, the Honorable Chairman, **JOSE VICENTE B. SALAZAR**, and the Honorable Commissioners, **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, and **GERONIMO D. STA. ANA**, **Energy Regulatory Commission**, this 20th day of February, 2017 at Pasig City.


ATTY. NATHAN J. MARASIGAN
Chief of Staff
Office of the Chairman and CEO