

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

IN THE MATTER OF THE APPLICATION
FOR APPROVAL OF THE UNBUNDLED
RATES PURSUANT TO THE PROVISIONS
OF REPUBLIC ACT NO. 9136

ERC CASE NO. 2001-924

QUEZON I ELECTRIC COOPERATIVE,
INC. (QUEZELCO I),

Applicant.

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DECISION

Before this Commission for resolution is the application filed on December 21, 2001 by applicant Quezon I Electric Cooperative, Inc. (QUEZELCO I) for approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136.

Having found said application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated April 10, 2002, were issued setting the case for initial hearing on June 10, 2002.

QUEZELCO I was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the country, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing. In compliance with the said directive, QUEZELCO I published the Notice of Public Hearing in the *Malaya* and *Balita* both on May 9 and 16, 2002.

The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the aforementioned initial hearing.

Likewise, the Office of the Municipal/City Mayors of Agdangan, Alabat, Atimonan, Buena Vista, Calauag, Catanauan, General Luna, Guinayangan, Gumaca, Lopez, Macalelon, Mulanay, Padre Burgos, Perez, Pitogo, Plaridel, Quezon, San Andres, San Francisco, San Narciso, Tagkawayan, Unisan and Del Gallego, , all in the Province of Quezon I, were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On May 20, 2002, QUEZELCO I filed its "Manifestation with Additional Compliance" attaching therewith the additional data/documents required by the Commission.

At the initial hearing on June 10, 2002, QUEZELCO I appeared. The Honorable David Suarez of the Sangguniang Panlalawigan of Quezon Province and a representative of the Honorable Aleta C. Suarez, Congresswoman of the 3rd District of Quezon appeared as oppositors/intervenors.

In the same hearing, QUEZELCO I presented its proofs of compliance with the Commission's publication and posting of notice requirements duly marked as Exhibits "A" to "C-22", inclusive. Thereafter, QUEZELCO I presented Ms. Delia V. Villela as witness. The Commission directed QUEZELCO I to file the revised schedules and other submissions using the prescribed model and based on its audited financial statement. The hearing was then reset to August 1, 2002.

On July 11, 2002, QUEZELCO I filed its "Revised Compliance" attaching therewith the schedules in compliance with the Commission's Uniform Rate Filing Requirements (UFR).

On July 31, 2002, QUEZELCO I filed an "Urgent Motion to Reset Hearing" praying that the scheduled hearing on August 1, 2002 be cancelled and reset to a later date by reason that the schedules it submitted were still not in accordance with the UFR and audited financial statements. Said motion was granted by the Commission in its Order dated August 1, 2002. Accordingly, the hearing scheduled on August 1, 2002 was cancelled and reset to September 5, 2002.

In the same Order, QUEZELCO I was directed to submit the required documents before the schedule hearing, copy furnished the oppositors/intervenors, who were, in turn, encouraged to submit, within ten (10) days from their receipt of copies of the said documents, their respective comments thereon.

In its Order dated August 21, 2002, the Commission acknowledged receipt of copies of the Resolutions passed by the local legislative bodies of the Municipalities of Gumaca and San Narciso, opposing the instant application.

During the hearing on September 5, 2002, QUEZELCO I presented Ms. Norma Osana, Consumer Accounts Department Manager and Engr. Wilfredo Olbiga, Engineering Manager, as witnesses, who testified on the documents/data submitted in support of the application. In the course thereof, additional documents/data were presented and marked as Exhibits "D" to "T", inclusive. At the termination of the direct examinations of the said witnesses, the Commission propounded clarificatory questions. Thereafter, QUEZELCO I rested its case.

Subsequently, the Commission, through several Order, acknowledged receipt of copies of Resolutions passed by several local legislative bodies within the Province of Quezon, opposing the instant application.

On May 21, 2003 QUEZELCO I filed its "Formal Offer of Evidence" which was admitted by the Commission for the purposes it was being offered.

I. SUMMARY OF QUEZELCO I's APPLICATION

I.A. REVENUE REQUIREMENT

QUEZELCO I's revenue requirement per unbundled application based on historical test year 2000 was as follows:

Account Name	HISTORICAL YEAR	
Purchased Power	PhP	283,678,618
Payroll		44,893,378
Operation and Maintenance (less Purchased Power & Payroll)		46,193,954
Debt Service (plus Interest on Cash Working Capital)		19,144,242
Revenue Requirement	PhP	393,910,192
Less: Other Revenue Items		18,695,494
Reinvestment Fund ¹ (11%)		19,695,510
TOTAL REVENUE REQUIREMENT	PhP	394,910,208

QUEZELCO I's proposed revenue requirement was PhP 394,910,208 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 1.4212/kWh based on year 2000. However, QUEZELCO I submitted an amended OATA based on Audited Financial Statements in the amount of PhP 0.2079/kWh. This same OATA was stated by witness Osana, in her testimony on September 5, 2002 [Transcript of Stenographic Notes (TSN), September 5, 2002, page 16].

¹ In the UFR, this item is reflected as "Plus Percentage for Cooperative Investment".

QUEZELCO I also submitted Audited Financial Statements for the year 2000.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by QUEZELCO I were as follows:

Residential		
Energy Charge	PhP 4.6452	/kWh
Retail Customer Charge	32.3100	/Customer/mo.
Metering Charge	31.4900	/Customer/mo.
Small Commercial		
Energy Charge	4.3813	/kWh
Retail Customer Charge	32.4900	/Customer/mo.
Metering Charge	41.9200	/Customer/mo.
Large Commercial		
Energy Charge	4.0456	/kWh
Demand Charge	54.44	/kW
Retail Customer Charge	77.8100	/Customer/mo.
Metering Charge	697.9000	/Customer/mo
Industrial – PFM		
Energy Charge	4.0534	/kWh
Demand Charge	54.17	/kW
Retail Customer Charge	1,558.3600	/Customer/mo.
Metering Charge	22,129.0200	/Customer/mo
Public Buildings		
Energy Charge	4.4176	/kWh
Retail Customer Charge	32.2100	/Customer/mo.
Metering Charge	37.8500	/Customer/mo.
Street Lights		
Energy Charge	7.6604	/kWh
Distribution Facilities Charge	41.6800	/Pole/mo.
BAPA		
Energy Charge	4.2210	/kWh
Retail Customer Charge	47.2500	/Customer/mo.
Metering Charge	255.6100	/Customer/mo.

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

All of the functionalization and the allocation factors used by QUEZELCO I were default factors provided in the Uniform Rate Filing Requirements (UFR) prescribed by the Commission. These were adopted by QUEZELCO I as applicable to its operations.

However, for certain distribution costs, QUEZELCO I developed its own allocation factors for its demand and customer-related costs using the Minimum-Plant Method.

I.B.2. SYSTEM LOSS

Witness Olbiga, in his testimony, stated that QUEZELCO I's system loss for the year 2000 was 13.77% (September 5, 2002, TSN, page 78).

Further, witness Olbiga testified that QUEZELCO I's system loss for the years 1996, 1997, 1998, and 1999 were 13.82%, 13.46%, 14.09%, and 14.60%. He also added that the increase in system loss for 1999 was due to the increasing losses as a result of continued line expansion. He claimed that reasons such are over extended lines, defective kilowatt hour meter and other factors contributed to the said increase. In order to mitigate the impact to the consumers, the cooperative kept on rehabilitating the lines, replacing defective kilowatt hour meters and clearing the lines (September 5, 2002, TSN, pages 78 and 79).

I.B.3. INTER-CLASS CROSS SUBSIDY

QUEZELCO I provided the amounts of cross subsidies for each customer type, as well as a program for the removal thereof.

CUSTOMER TYPE	ADJUSTED EXISTING (PhP)	PROPOSED EXISTING (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	254,181,473	270,835,101	(16,653,628)
Small Commercial	42,097,316	36,379,306	5,718,010
Large Commercial	39,136,950	31,117,936	8,019,014
Industrial – PFM	21,246,357	21,185,912	60,445
Public Buildings	18,358,678	16,261,688	2,096,990
Street Lights	3,922,455	6,296,956	(2,374,500)
BAPA	15,966,979	12,833,309	3,133,669
Total	394,910,208	394,910,208	0

I.B.4. LIFELINE RATE and LEVEL

QUEZELCO I proposed the following level and rate (equal to the existing rate) for marginalized end-users:

Level	12 kWh
Rate	PhP 9.9617/kWh

I.C. OTHER CHARGES

QUEZELCO I, in its subsequent submission, provided this Commission with information on its existing Other Charges as shown below. QUEZELCO I did not propose any adjustment to these charges.

PARTICULARS	RATES
1. Reconnection Fee <ul style="list-style-type: none"> • Residential/Public Buildings 	200.00
2. Installation fee for transformer <ul style="list-style-type: none"> • 5 KVA • 10 KVA • 15 KVA • 25 KVA • 75 KVA • 100 KVA 	200.00 250.00 300.00 400.00 1,500.00 2,000.00
3. Transformer Rental	50.00
4. Pole Rental <ul style="list-style-type: none"> • CATV/Pole/Mo. • 15 KVA/Pole/Mo. 	9.00 15.00

II. COMMISSION DISCUSSIONS and CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

In reaching its conclusions herein, the Commission took into consideration the documents, data, comments and issues submitted by the applicant, oppositors and other interested parties who manifested their respective positions on this present application.

II.A.1. TEST YEAR

The Commission finds QUEZELCO I's proposal to use the test year 2000 in its unbundled rate application acceptable, since it is consistent with Rule 15 Section 6 (c) of the Implementing Rules and Regulations (IRR) of R.A. 9136. Therefore, the discussions and conclusions that follow are based on Schedule A, adjusted to audited financial statement figures for historical test year 2000.

II.A.2. GENERATION and TRANSMISSION COSTS

In year 2000, QUEZELCO I buys power from two (2) sources, namely: National Power Corporation (NPC) and Camarines Norte Electric Cooperative, Inc. (CANORECO). The Commission noted that the contractual arrangement between QUEZELCO I and CANORECO had no prior approval from the Energy Regulatory Board (ERB). Likewise, QUEZELCO I has ceased to purchase power from CANORECO since year 2002. As such, the Commission has limited the purchased power rates to that not exceeding the NPC rate.

The Generation Charges shall reflect the generation charge as provisionally authorized by the Commission in the joint filing of National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM) in its Order dated September 29, 2003, Case No. 2003-291 [In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs] and the revised methodology designated as the "Long-Run Avoidable Cost" (LRAC) methodology in lieu of the "Return on Rate

Base” (RORB) methodology for the determination of the NPC’s and PSALM’s generation rates.

For the Luzon Grid, the Generation Rate is equivalent to the sum of the Annual LRAC Average Rate, and Franchise & Benefits to Host Communities (please refer to Section II.B.2.b. for details). The implementation of NPC’s Generation Rate Adjustment Mechanism (GRAM) and FOREX in Luzon is terminated upon the effectivity of the approved rates based on the LRAC Methodology.

The Transmission Charges shall reflect the transmission charges of the National Transmission Corporation (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, Case No. 2001-901 [In the Matter of the Application for the Approval of the Revised Unbundled Power Rates, National Power Corporation (NPC) – Applicant]. A separate charge to account for the allowable system loss shall likewise be provided in the bill to end-users (please refer to Section II.B.2.d. for details). Hence, a distribution utility with system loss that is within the allowable cap can recover from its end-users the total cost of generation and transmission. *Annualization*² of the billing determinants was applied.

The Commission made an upward adjustment of PhP 31,149,035 to the Purchased Power as shown below:

² *The annualization of kWh sales is calculated by multiplying the average kWh consumption of a specific customer class by their respective year-end number of customers.*

Adjustment to Purchased Power Cost	PhP	32,359,687
Adjustment to System Loss		(1,210,652)
Net Adjustment	PhP	31,149,035

The adjustments to Purchased Power Cost of PhP 32,359,687 pertains to the difference between the proposed Purchased Power of QUEZELCO I amounting to PhP 283,678,618 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to PhP 316,038,305.

Furthermore, the Generation Charges shall also reflect the Incremental Currency Exchange Rate Adjustment (ICERA) as approved in ERC Order dated December 4, 2003, Case No. 2003-498 [In the Matter of the Adoption of the Incremental Currency Exchange Rate Adjustment of National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM), applicants]. The ICERA rate of PhP (0.0065)/kWh will be implemented by NPC and PSALM within a period of six months starting December 2003 to May 2004.

Records show that QUEZELCO I's 2000-2002 average system loss was 14.33%. The Commission allowed a system loss of 14% in the calculation of QUEZELCO I's revenue requirement as discussed in Section II.B.2.d. of this Decision. Thus, the Commission made a downward adjustment to system loss of PhP 1,210,652 which represents the excess of actual system loss over the allowable recoverable cap of PhP 46,957,574 for QUEZELCO I.

Based on the new NPC generation charges and transmission charges, as well as the allowable system loss, the Commission sets QUEZELCO I's unbundled Generation, Transmission, and Recoverable System Loss as follows:

Generation Charge	PhP 192,528,198
Transmission Charge	75,341,881
Recoverable System Loss	46,957,574
Total	PhP 314,827,653

QUEZELCO I's approved generation charge shall remain fixed until changes in NPC's generation rate are approved and authorized by the Commission pursuant to its Order dated September 29, 2003, Case No. 2003-291 [In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs]. In which case, QUEZELCO I shall bill its end-users the new generation rate charged by NPC. In the meantime, QUEZELCO I shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission adjusted the payroll account upwards by PhP 3,530,832 to update it to the current salary level of PhP 48,424,210. The

adjustment was due to the implementation of new salary increases based on the wage order implemented in the year 2001.

The Commission reviewed the Wage Adjustment Clause (WAC) Formula authorized by the then Energy Regulatory Board through ERB Case Nos. 94-25 and 94-96. The then Board allowed the implementation of the WAC Formula based on three (3) established criteria for it to be classified under automatic adjustment clauses. These are: 1) when such costs are extremely volatile, changing rapidly over a short period of time; 2) when such volatile cost changes represent significant portions of total utility operating expenses; and 3) when such volatile cost changes are beyond the ability of the utility to control.

Analysis shows that the wage adjustments do not warrant an automatic recovery clause. The Commission therefore rules that the application of the WAC Formula be discontinued. The growth in kWh sales will be sufficient for the electric cooperatives to absorb increases in salaries/wages mandated by the wage orders.

The Commission notes that QUEZELCO I correctly chose not to apply the WAC formula.

II.A.4. OPERATION and MAINTENANCE (less Purchased Power and Payroll)

In general, operating expenses allowed are those which are reasonably incurred in connection with business operations to yield revenue or income. These should be required or necessary in the operation of a utility, are recurring, and should redound to the service or benefit of end-users.

The Commission enjoins QUEZELCO I to incur only “prudent and reasonable costs” for inclusion in the determination of retail rates. While a distribution utility enjoys the benefit of passing its costs of purchased power and other reasonable costs to the end-user, it is obligated as a public utility to ensure that its costs of operations, including payroll, are kept at a minimum. The distribution utility must bear in mind that its very nature is that of a service company for its end-users, with a mandate to advocate and transact judiciously for and in their behalf.

“Reasonable costs” may be defined as the costs of those goods and services which, while may not be the lowest in price, need to be incurred with consideration of quality, efficiency, reliability, and security, which are characteristics of the service that should be delivered by the distribution utility. “Prudent costs” demand that the utility ensures that its purchases of goods and services are at their minimum, without sacrificing the foregoing characteristics. When making a purchase or executing a contract, it cannot simply rely on its right to pass on its costs to its end-users.

As such, the Commission, in fulfillment of the policy of the R.A. 9136 to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins QUEZELCO I to institute and report to the Commission its respective policies and procedures for cost-cutting and for the transparent and competitive procurement of goods and services.

QUEZELCO I's end-users have a right to receive safe, reliable, and adequate service at a reasonable rate. On the other hand, these end-users should pay their power bills on time to ensure QUEZELCO I's viability. To this end, QUEZELCO I should view a petition for an increase in rates to be the last recourse. In future filings, QUEZELCO I should be reminded that it has the burden of proving that all reasonable and appropriate cost-cutting measures have been taken before resorting to a petition to increase rates.

The Commission made a downward adjustment of PhP 10,824,340 in its Operation and Maintenance consisting of the following:

Cost Recoverable from customers		
Meter Replacement	PhP	741,561
Amount in the UFR that exceeded what is allowed under NEA guidelines		
Omnibus Allowance – BOD		780,000
Decrease in Total Distribution Costs to reduce the resulting computed OATA to the amount actually applied for by the cooperative		8,375,407
Consumer Prompt Payment Reclassified to Other Revenue Items		927,372
TOTAL ADJUSTMENT	PhP	10,824,340

The said expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.1280/kWh.

For future rate cases, QUEZELCO I will continually be required to make full disclosure of all its O & M expenses and be responsible in providing documentation to prove the reasonableness and prudence of all its expenditures. QUEZELCO I should ensure that procedures are put in place so that all expenditures that are included in the determination of revenue requirement are adequately documented and that such documentation is reasonably accessible to the ERC.

II.A.5. OTHER REVENUES ITEMS

The Commission defines Other Revenue Items (ORI) as revenue earned (net of other expenses) by the electric utilities from activities other than sale of electricity.

The Commission encourages QUEZELCO I to improve its financial operations through the development of other related sources of revenue. However, in order to balance the interest of QUEZELCO I and its end-user and in recognition of the fact that some of the cost incurred in rendering services under ORI have already been included in the determination of revenue requirement, the Commission has adopted the following policy: The ORI that arises from activities not related to the business of the cooperative nor involves the use of its assets will not be deducted from the revenue requirement of the cooperative. The ORI that arises out of related business activities or is asset

based will be shared by the cooperative and the end-user by including 50% in revenue requirement.

The total non-asset based ORI which were not deducted from the total revenue requirement amounts to PhP 9,613,670.

The ORI subjected to the 50% rule was computed as follows:

Particulars	Amount (PhP)
Other Revenues	
Prompt Payment Discount - NPC, net of Prompt Payment Discount given to customers of PhP 927,372	7,903,017
Rent from Electric Property	733,706
TOTAL	8,636,723
50% of the above	4,318,361

The Commission also rules that any interest/dividend income earned will be retained 100% by QUEZELCO I. However, such income should form part of the reinvestment fund and will be used solely for rehabilitation/expansion programs of QUEZELCO I.

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 3,319,880 to assure that the debt service account included in QUEZELCO I's revenue requirements is consistent with NEA's records. The Commission disallowed the interest cost associated with cash working capital as calculated by QUEZELCO I due to lack of justification. The details of the adjustment are shown below:

TYPE OF LOAN	Per NEA
Rural Electrification:	
LOAN A	750,382
LOAN B	1,822,060
LOAN C	458,462
LOAN D	372,416
LOAN E	1,449,564
LOAN F	80,576
LOAN G	192,584
LOAN H	380,836
LOAN I	5,097,924
COMPAC 1	
Local	224,536
Korea	118,336
USA – A	483,252
USA – B	932,512
Brazil	154,648
CONCESSIONAL – A	605,308
CONCESSIONAL – B	536,232
GSIS – Insurance	2,079,247
OTHER LOANS	85,487
TOTAL	15,824,362
QUEZELCO I's Debt Service as reflected in the UFR (plus Interest on Cash Working Capital of PhP 5,628,220)	19,144,242
ADJUSTMENT	3,319,880

Pursuant to Section 60 of R.A. 9136 and E.O. 119, savings realized by electric cooperatives (ECs) due to the assumption of certain loans by the Power Sector Assets and Liabilities Management Corporation (PSALM Corp.) shall be passed on to the ECs' end-users. QUEZELCO I applied for a rate reduction pursuant to the Guidelines for the Implementation of the Reduction in Rates of the Electric Cooperatives Due to Condonation of Debts issued by the Commission on October 21, 2002, as amended on November 15, 2002.

The Commission, in its Order dated March 10, 2003, granted QUEZELCO I a Provisional Authority to reduce its rates by PhP 0.1608/kWh effective on the next billing cycle after receipt of the said Order. The said reduction in rates is likewise shown on the rate schedule provided in the Disposition of this Decision.

II.A.7. REINVESTMENT FUND

The Commission permits a reinvestment fund equivalent to 5% of a cooperative's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in an upward adjustment of PhP 1,890,147 in the reinvestment fund account.

One of the main purposes of providing the 5% Reinvestment Fund is for the end-users of QUEZELCO I to shoulder part of their increasing capitalization requirements, as outside sources of funding are getting scarce.

The Reinvestment Fund is authorized subject to the following conditions:

- a) This reinvestment fund shall not be used, even temporarily, for any purpose other than for those projects specified in the submitted plan;

- b) The amounts collected for the reinvestment fund, including interest income (as discussed in Section II.A.5.), shall be placed in a separate account and shall be disbursed in accordance with the plan submitted by QUEZELCO I;

- c) QUEZELCO I is further required to submit a progress report no later than one (1) year after the date of this Decision and every year thereafter using the format prescribed by the Commission. The progress report shall include detailed accounting itemizing total collections, the actual use of all disbursements, and actual current system losses.

Upon review of the progress report, the Commission may issue an order for QUEZELCO I to appear and show cause why it should continue collection of the reinvestment fund; and

- d) QUEZELCO I shall submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Plan covering the period 2004 to 2008, no later than one (1) year after the date of this Decision using the format to be prescribed by the Commission.

II.A.8. PROVISIONAL AUTHORITY GRANTED BY ERB

The Commission takes note of QUEZELCO I's provisional rate increase of PhP 0.1700/kWh which was granted on January 23, 1995 in ERB Case No. 94-125. The finality of the said provisional authority will be addressed in a separate decision which the Commission will issue.

II.A.9. REVENUE REQUIREMENT SUMMARY

The table provided below is a comparison of the approved revenue requirement with that proposed by QUEZELCO I:

Account Name	QUEZELCO I Proposal	Adjustments	ERC Approval
Purchased Power	283,678,618	31,149,035	314,827,653
Payroll	44,893,378	3,530,832	48,424,210
O & M (less PP & Payroll)	46,193,954	(10,824,340)	35,369,614
Debt Service	19,144,242	(3,319,880)	15,824,362
Reinvestment Fund ³	19,695,510	1,890,147	21,585,657
Other Revenue Items	(18,695,494)	14,377,132	(4,318,362)
Total Rev. Requirement	394,910,208	36,802,926	431,713,134

QUEZELCO I proposed a revised OATA of PhP 0.2079/kWh using rates of year 2000 (as discussed in Section I.A. of this Decision). The OATA is a measurement tool based on the formula: [(Total Revenue Requirement less Existing Revenue) divided by kWh sales]. This measurement is not meant to refer to any specific customer class.

³ In the UFR, this item is reflected as "Plus Percentage for Cooperative Investment".

The Commission, after considering adjustments of PhP 36,802,926, approves a total revenue requirement of PhP 431,713,134 based on the year 2000 and approves QUEZELCO I's OATA⁴ of PhP 0.2079/kWh for which it asked for. The actual impact to end-users will depend on the level of rates currently being charged. This impact is illustrated in Section II.B.6. of this Decision.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1 FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

The functionalization and allocation factors used by QUEZELCO I were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of QUEZELCO I, a number of the default factors were found not to represent the best alternative among possible factors. Thus, the following three (3) default factors used by QUEZELCO I for functionalization and allocation were modified, to wit:

First, the use of Net Plant in Service (PLTSVC-N) as a factor to functionalize and allocate Maintenance for Office and General Plant will cause skewed results by allocating these maintenance costs toward assets not part of such activity. The Commission, therefore, adopted a factor based on Net General Plant (GP-N) as a more reasonable method to allocate maintenance expense associated with general plant.

⁴ The OATA was computed using existing approved distribution rates (inclusive of current WAC, if any) and unbundled power cost as of December 2003.

Second, the factor “Total Operation and Maintenance, Net of Fuel and Purchased Power” (TOMXFP), which was used as a default factor to functionalize costs under outside services, was replaced with the factor “Total Payroll Excluding Administrative and General Payroll” (PAYXAG) in order to remove the possibility of allocating a portion of Outside Services costs to transmission function.

Third, since the Commission is now including Other Revenue Items (ORI), it was necessary to functionalize and allocate these amounts. The functionalization factors for ORI, which were determined based on direct assignment, are as follows:

Factor Name	Functionalization Factor Description	Total Check	Generation	Transmission	Distribution	Supply	Metering
ORI	Other Revenue Items	1.0000	0.0000	0.0000	0.0477	0.9350	0.0173

QUEZELCO I failed to submit the classification of distribution costs into demand and customer-related costs using the Minimum Plant Method due to time constraint, therefore, the Commission adopted demand and customer allocation of 46% - 54% on the average.

II.B.2. DESIGN and CALCULATION OF CHARGES

II.B.2.a. BAPA

The Commission, in the design and calculation of charges, takes note of the existence of the Barangay Power Associations (BAPAs) that were conceptualized by the National Electrification Administration (NEA) for the purpose of strengthening member awareness and involvement in efforts towards the reduction of system loss, improvement of collection efficiency, and fortification of the institutional consciousness in the grassroots level. The creation of BAPAs was also necessitated by the growing number of cooperatives' membership, which made it impossible for the cooperatives to physically reach out to all end-users.

The cooperatives are responsible for the energization of the BAPAs while the latter is responsible for the maintenance of the electric lines and other installed equipment, and the reading and billing of respective member end-users. The cooperatives, in this regard, are mandated to grant various incentives to BAPAs such as three percent (3%) prompt payment discount, rebates on kWh sold, system loss allowance, honorarium for working BAPA officers, annual cash rewards for outstanding BAPAs, and livelihood projects.

The Commission further acknowledges that cooperatives that have instituted BAPAs in their respective franchise areas incur costs with respect to the generation and distribution of power. With reference to the supply and metering functions, the cooperatives generally sustain minimal costs because they only read and bill the BAPAs' mother meters.

In the design and calculation of changes, the Commission did not consider the BAPA as a customer class.

II.B.2.b. GENERATION CHARGE

Consistent with the Commission's Order dated September 29, 2003, Case No. 2003-291 [In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs], the revised generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Benefits to Host Communities, and the ICERA rate of PhP (0.0065)/kWh which will be implemented by NPC and PSALM within a period of six months starting December 2003 to May 2004.

For QUEZELCO I, the Long-Run Avoidable Cost (LRAC) rates for the following billing cycle are as follows:

Annual LRAC Average Rate/kWh	Franchise & Benefits to Host Communities	ICERA Adjustment
PhP 2.4717	PhP 0.0245	(PhP 0.0065)

The implementation of NPC's Generation Rate Adjustment Mechanism (GRAM) and FOREX in the Luzon, Visayas and Panay/Bohol is terminated upon the effectivity of the approved rates based on the LRAC Methodology, as discussed in Section II.A.2. of this Decision. Moreover, the approved generation rate will remain fixed until changes are authorized by the Commission pursuant to the afore-stated Order dated September 29, 2003,

upon its filing of the last GRAM and ICERA petition to recover the deferred generation charge and FOREX for the test periods February to September 2003. This eliminates the need for future Purchased Power Adjustment (PPA).

II.B.2.c. TRANSMISSION CHARGE

The Commission's Decision in ERC Case No. 2001-901 dated June 26, 2002 and Order dated September 20, 2002 set the transmission charges for the TRANSCO without automatic adjustments. Since the transmission rates to be paid by QUEZELCO I are fixed, it is the decision of the Commission to likewise fix the unbundled transmission rates billed to end-users. The transmission charges approved for billing by QUEZELCO I have been calculated based on the approved TRANSCO rates, which include cross subsidy elements to be phased out over a three-year period. The following transmission charges will apply to all end-users consistent with the gradual phase-out of the intra-grid subsidy.

Transmission Charges	Res.	Comm'l	Ind'l	Ind'l – PFM	Public Bldgs.	Street Lights
October 2003 – September 2004						
Demand Charge PhP/kW			23.16	23.16		
Transmission System Charge PhP/kWh	0.9332	0.9487	0.8896	1.3869	0.9038	0.9560
October 2004 – September 2005						
Demand Charge PhP/kW			23.16	23.16		
Transmission System Charge PhP/kWh	1.1234	1.1421	1.0909	1.6937	1.0880	1.1509
October 2005 – September 2006						
Demand Charge PhP/kW			23.16	23.16		
Transmission System Charge PhP/kWh	1.3136	1.3354	1.2922	2.0004	1.2722	1.3458

II.B.2.d. SYSTEM LOSS CHARGE

The Commission defines system loss for utilities to include technical loss, non-technical loss, and administrative loss or the utility's use of power for its own operations.

The Commission approves the recovery of allowed system loss through the establishment of a separate System Loss Charge in the bill to end-users. The System Loss Charge shall vary from one customer class to another depending on their respective contributions to the system loss. However, due to limited information, the Commission is constrained to adopt a uniform allowable System Loss Charge for all end-users of QUEZELCO I.

The allowed system loss is equal to the average system loss for the years 2000, 2001 and 2002 or the system loss cap, whichever is lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risk of over or under-recovery in the event its load characteristics change through time. The system loss not only results in additional unbundled generation costs but also additional unbundled transmission costs to be paid by end-users. When system loss is within the allowable cap, the distribution utility shall recover from the end-users all generation and transmission costs. Thus, system loss in excess of the allowable caps shall not be recovered from the end-users as calculated in Section II.A.2. of this Decision.

On December 8, 1994, Republic Act No. 7832, otherwise known as the Anti-Pilferage Law, was enacted. In July 1995, the ERB promulgated Implementing Rules and Regulations (IRR) under ERB Case No. 95-05, to implement said law. Section 10 of R.A. 7832 and Rule IX, Section 1 of the IRR provide that the recoverable Technical and Non-Technical System Loss should not exceed the fourteen percent (14%) ceiling allowed for year 2000.

The Commission believes that the present cap on Technical and Non-Technical System Loss of 14% should continue to be used. This would, however, be subject to change upon the approval of a new policy by the Commission. The average Technical and Non-Technical System Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of QUEZELCO I's Board of Directors, officers and staff) whichever is lower shall be deducted from total power cost and to be billed separately as System Loss Charge.

The Commission found that QUEZELCO I's 2000 to 2002 average System Loss was 14.33% which is higher than the aforementioned cap of 14%. Hence, the Commission, used the system loss cap of 14% in the calculation of QUEZELCO I of its revenue requirement. This would however be subject to change upon the approval of a new policy relative thereto by the Commission.

II.B.2.e. DISTRIBUTION CHARGE

The distribution charges shall be billed on a fixed rate per kilowatthour for all end-users. For end-users with demand meters, the distribution shall be billed using combination of fixed rate per kilowatt (kW) and fixed rate per kilowatthour (kWh).

QUEZELCO I did not propose for distribution wheeling rates. The Commission however believes that wheeling rates are parallel to the cost of service functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided on Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market. Other distribution utilities requesting to wheel power across QUEZELCO I's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial end-users.

The Commission's decision to allow a distribution utility to avail of the Distribution Wheeling Charges of another distribution utility is based on the general intent of R.A. 9136 to promote a competitive generation market. Distribution utilities that currently or in the future shall rely in full or in part on the distribution facilities of another distribution utility should not be held captive by the other distribution utility in the purchase of the unbundled generation. Therefore, Distribution utilities are prohibited from bundling or tying the sale of generation or purchased power with the sale of unbundled distribution wheeling service.

II.B.2.f. METERING and SUPPLY CHARGES

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost-of-service principle, however, the Commission also considers rate design impacts across the spectrum of customers within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal of revenue flows that may be characterized as intra-class cross subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users, the Commission orders QUEZELCO I to use a combination of a PhP 5.00 per customer per month and a PhP 0.3774 per kWh rate for the metering function and a PhP per kWh rate for the supply function. All other end-users shall be billed a fixed monthly supply and meter charge for supply and meter function. Street Lights customers will not be billed a metering charge.

All BAPA residential end-users will be charged with rates used for the Residential Class. QUEZELCO I will draw the various incentives it will provide the BAPA from the revenues that will be generated from the Supply and Metering Charge to BAPA end-users.

II.B.3. INTER-CLASS CROSS SUBSIDY

II.B.3.a. CROSS SUBSIDY RATE CALCULATION

The inter-class cross subsidies in existing rates are as follows:

	Total	Residential	Commercial	Industrial	Industrial - PFM	Public Bldgs.	Street Lights
New Cost-Based Rev. Req.	431,713,134	309,506,252	38,938,220	32,097,350	24,776,709	17,819,910	8,574,693
Existing Rates Revenue	415,636,252	283,502,091	43,212,310	38,538,304	26,709,612	19,599,168	4,074,767
Total Change in Revenue	16,076,882	26,004,161	(4,274,090)	(6,440,954)	(1,932,903)	(1,779,258)	4,499,926
Percentage Change in Revenue	3.87%						
Normalized Existing Revenue	431,713,134	294,468,002	44,883,770	40,028,972	27,742,744	20,357,267	4,232,379
Inter-Class Cross - Subsidy Amounts (PhP)	0	(15,038,250)	5,945,550	7,931,622	2,966,035	2,537,357	(4,342,314)
Class Billing Determinants (in kWh)	77,329,878	52,943,256	8,009,950	7,078,994	4,828,270	3,660,092	809,316
Inter-Class Cross Subsidy Rates (PhP / kWh)		(0.2840)	0.7423	1.1204	0.6143	0.6932	(5.3654)

II.B.3.b. CROSS SUBSIDY REMOVAL

Section 74 of R.A. 9136 and Rule 16, Section 5 of its Implementing Rules and Regulations provide that the ERC shall issue a scheme for phasing out all cross subsidies including subsidies within Grids, between Grids, and between classes of end-users. The phasing-out period shall not exceed three (3) years from the establishment of the Universal Charge, which may be extended for a maximum period of one (1) year subject to certain conditions.

The Commission approved the cross subsidy removal scheme for TRANSCO in its Decision dated June 26, 2002, Case No. 2001-901, which impacts the unbundled transmission rates for QUEZELCO I's end-users. This impact is reflected in the three-year schedule for unbundled transmission charges provided in Section II.B.2.c. above.

In the instant case, the Commission will order the cross subsidy removal process at a later date following the establishment of the Universal Charge. Until such time, QUEZELCO I will continue to charge the inter-class cross subsidy rates set forth in Section II.B.3.a. above.

II.B.4. LIFELINE RATE and LEVEL

Section 4 (hh) of the R.A. 9136 defines Lifeline Rate as the subsidized rate given to low-income captive market end-users who cannot afford to pay at full cost. Pursuant to Section 73 of R.A. 9136, the Commission hereby sets the level of lifeline consumption and its corresponding discount rates.

In determining the lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income end-users by considering two (2) lighting facilities at 20 watts each and a 50-watts radio that are being used for a reasonable number of hours. In setting the maximum level of lifeline consumption, the Commission may adjust the minimum level of consumption and/or level of the lifeline discount so as to maximize the benefit to low income end-users while keeping the costs associated with such subsidy between PhP 0.05 and PhP 0.10 per kWh. Thus, the Commission sets the lifeline consumption maximum level of 25 kWh for QUEZELCO I. The Commission considers the impact that the subsidized Lifeline Rates will have on other end-users who must carry the costs associated with such subsidy. This fact, combined with the desire to maximize the benefit to as many marginalized

end-users as possible, has led the Commission to adopt the following graduated scale for lifeline discount for QUEZELCO I. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

15 kWh and below	-	35%
16 kWh	-	30%
17 kWh	-	25%
18 kWh	-	20%
19 kWh	-	15%
20 kWh	-	10%
21 - 25 kWh	-	5%

QUEZELCO I shall apply these discounts to the following residential charges: Generation, Transmission, Distribution, Supply, Metering and System Loss. In a given billing period, an end-user at any of the above consumption levels shall be given the specified corresponding discount on each of these rate components. An end-user with a level of consumption exceeding 25 kWh in a particular billing period shall not be entitled to any discounted lifeline rate for said period.

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end-users. For QUEZELCO I the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0761/kWh.

The Commission believes that BAPA marginalized residential end-users should likewise enjoy the benefit of lifeline rates. For this purpose, the Commission accepts QUEZELCO I's proposal to integrate the household connections of BAPAs into the Residential customer class.

QUEZELCO I shall coordinate with its Barangay Power Associations to gather information on the number of kWh falling under the different lifeline level and corresponding discount rates for proper billing and implementation of lifeline benefits on the same. Each association will accordingly implement/provide lifeline benefits to its deserving BAPA end-users.

II.B.5. OTHER CHARGES

QUEZELCO I's additional submission to this Commission of its existing Other Charges as previously presented was considered in the determination of its revenue requirement. Fifty percent (50%) of the revenues derived from these charges were appropriately deducted from the determination of the revenue requirement allowed to QUEZELCO I. In future cases filed after Other Charges have established on cost, the appropriate level of deduction of the revenue derived from these charges may be revisited.

The Other Charges of QUEZELCO I are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, QUEZELCO I is ordered to make a compliance filing on its Other Charges one (1) year from the date of this Decision using a format to be prescribed by the Commission.

The compliance filing for the approval of Other Charges shall include rates that are cost-based, as well as all supporting cost justifications for the rates, including but shall not be limited to the amount of actual time and wages of employees performing each task encompassed by each type of Other Charges.

II.B.6. ESTIMATED IMPACT ON AN AVERAGE RESIDENTIAL END-USER

A comparison of the estimated impact of all adjustments on the revenue requirement on the monthly bill of an average residential end-user consuming 69 kWh a month using rates based on QUEZELCO I's actual existing rates as of December 2003 against the unbundled rates approved by the Commission is shown below.

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates		
	PhP/kWh	Amount (PhP)		PhP/kWh	Amount (PhP)
Basic Rate	3.4640	239.02	Generation Charges:		
PPA	2.0334	140.30	Generation System Charge	2.4717	170.55
PAR	(0.3000)	(20.70)	Benefits to Host Communities Charge	0.0245	1.69
Univ. Charge			ICERA	(0.0065)	(0.45)
Missionary Electrification	0.0373	2.57	Transmission Charge	0.9332	64.39
Environmental Charge	0.0025	0.17	System Loss Charge	0.6072	41.90
Loan Condonation	(0.1608)	(11.10)	Distribution Charge	1.0305	71.10
			Supply Charge	0.3681	25.40
			Metering Charges:		
			Retail Customer Charge per Month		5.00
			Metering System Charge	0.3774	26.04
			Inter-Class Cross Subsidy	(0.2840)	(19.60)
			Universal Charge:		
			Missionary Electrification Charge	0.0373	2.57
			Environmental Charge	0.0025	0.17
			Lifeline Rate [(Discount)/Subsidy]	0.0761	5.25
			Power Act Reduction	(0.3000)	(20.70)
			Loan Condonation	(0.1608)	(11.10)
TOTAL BILL		350.27	TOTAL BILL		362.23
PhP/kWh		5.0764	PhP/kWh		5.2494

DISPOSITION

WHEREFORE, the foregoing premises considered, it is hereby decided as follows:

1. To approve the unbundled schedule of rates of QUEZELCO I to be effective on the first billing cycle thirty (30) days after receipt of this Decision, to wit;

	Residential	Commercial	Industrial	Industrial-PFM	Public Building	Street Lights
Generation Charges:						
Generation System Charge P/kWh	2.4717	2.4717	2.4717	2.4717	2.4717	2.4717
Franchise & Benefits to Host Communities Charge PhP/kWh	0.0245	0.0245	0.0245	0.0245	0.0245	0.0245
ICERA Adjustment Charge PhP/kWh	(0.0065)	(0.0065)	(0.0065)	(0.0065)	(0.0065)	(0.0065)
Transmission Charges:						
Demand Charge PhP/kWh			23.16	23.16		
Transmission System Charge PhP/kWh	0.9332	0.9487	0.8896	1.3869	0.9038	0.9560
System loss Charge PhP/kWh	0.6072	0.6072	0.6072	0.6072	0.6072	0.6072
Distribution Charges:						
Demand Charge PhP/kWh			23.16	23.16		
Distribution System Charge PhP/kWh	1.0305	0.6001	0.3467	0.4120	0.6285	6.3810
Supply Charges:						
Retail Customer Charge PhP/Cust./Mo.		23.42	22.95	22.95	22.95	21.59
Supply System Charge PhP/kWh	0.3681					
Metering Charges:						
Retail Customer Charge PhP/Meter/Mo.	5.00	33.73	33.73	33.73	24.46	
Metering System Charge PhP/kWh	0.3774					
Inter-Class Cross Subsidy PhP/kWh	(0.2840)	0.7423	1.1204	0.6143	0.6932	(5.3654)
Universal Charge:						
Missionary Elect. Charge PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Charge PhP/kWh	0.0025		0.0025	0.0025	0.0025	0.0025
Lifeline Rate (Disct)/Subsidy PhP/kWh	0.0761	0.0761	0.0761	0.0761	0.0761	0.0761
Loan Condonation* PhP/kWh	(0.1608)	(0.1608)	(0.1608)	(0.1608)	(0.1608)	(0.1608)
Power Act Reduction PhP/kWh	(0.3000)					
Lifeline Rate (Discount) Subsidy. To be based on Residential rate in a graduated scale as provided in Section II.B.4. of this Decision						
Loan Condonation. Pursuant to Order on ERC Case No. 2003-55 dated March 10, 2003.						

2. To direct QUEZELCO I to comply with the following:
 - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates; QUEZON I shall automatically bill its end-users the new Generation rate charged by NPC as approved and authorized by the Commission;
 - b) Bill PhP 0.0373/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-165 [In the Matter of the Petition for the Availments from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant];
 - c) Bill PhP 0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-194 [In the Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, Applicant];
 - d) Bill its respective end-users using a billing format which contains at least the rate elements, provided in Annex A of this Decision upon effectivity of the approved unbundled rates. The rate elements provided in Annex A should appear on the

end-users bill even if the rate elements currently have a value of zero or have not yet been determined by the Commission;

- e) Inform the end-users within its franchise area of the said approved unbundled rates no later than thirty (30) days after receipt of this Decision;
- f) Submit for verification and confirmation purposes on or before the twentieth (20th) day of the month following the effectivity of the approved unbundled rates and every month thereafter:
 - 1) five (5) sample bills for each end-user class; 2) copy of bills from the generation and transmission companies; and
 - 3) Monthly Financial and Statistical Reports (MFSRs) complete with all related schedules;
- g) Make a formal application with the Commission for the approval of existing or future contracts with any entity for the wholesale purchases of power not yet approved by the Commission;
- h) Make a formal application to continue the use of Other Charges within one (1) year from date of this Decision using a format to be prescribed by the Commission;

- i) File a progress report on the reinvestment fund no later than one (1) year after the date of this Decision and every year thereafter, using the prescribed formats provided in Annexes B & C of this Decision. The report shall include detailed accounting of actual collections and deposits (including interest/dividend income), specific transactions and withdrawals for all disbursements, actual current system losses;

- j) Submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Program covering the period 2004 to 2008, no later than one (1) year after the date of this Decision using a format to be prescribed by the Commission; and

- k) Institute policies and procedures for cost-cutting and transparent and competitive procurement of goods and services and submit a report thereon to the Commission within six (6) months from receipt of this Decision.

SO ORDERED.

Pasig City, January 12, 2004.

LETICIA V. IBAY
Officer-In-Charge

OLIVER B. BUTALID
Commissioner

CARLOS R. ALINDADA
Commissioner

JESUS N. ALCORDO
Commissioner

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12. The Municipal Mayor
Agdangan, Quezon
13. The Municipal Mayor
Alabat, Quezon
14. The Municipal Mayor
Atimonan, Quezon
15. The Municipal Mayor
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16. The Municipal Mayor
Calauag, Quezon
17. The Municipal Mayor
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18. The Municipal Mayor
General Luna, Quezon
19. The Municipal Mayor
Guinayangan, Quezon
20. The Municipal Mayor
Gumaca, Quezon
21. The Municipal Mayor
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22. The Municipal Mayor
Macalelon, Quezon
23. The Municipal Mayor
Mulanay, Quezon
24. The Municipal Mayor
Padre Burgos, Quezon
25. The Municipal Mayor
Perez, Quezon
26. The Municipal Mayor
Pitogo, Quezon
27. The Municipal Mayor
Plaridel, Quezon

28. The Municipal Mayor
Quezon, Quezon
29. The Municipal Mayor
San Andres, Quezon
30. The Municipal Mayor
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31. The Municipal Mayor
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