

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. 2001-936**

IN THE MATTER OF THE APPLICATION  
FOR AUTHORITY TO INCREASE  
ELECTRIC RATES WITH PROVISIONAL  
AUTHORITY

**ERC CASE NO. 2001-697  
(ERB CASE NO. 2000-108)**

FIRST BUKIDNON ELECTRIC COOPERATIVE,  
INC. (FIBECO),

*Applicant.*

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## **DECISION**

Before this Commission for resolution are the consolidated applications filed by First Bukidnon Electric Cooperative, Inc. (FIBECO) for: (a) authority to increase electric rates with prayer for provisional authority filed on June 14, 2000 and docketed as ERC Case No. 2001-697; (b) approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136 filed on December 20, 2001 and docketed as ERC Case No. 2001-936.

ERC Case No. 2001-697:

On June 14, 2000, FIBECO filed an application for authority to increase its electric rates by PhP 0.3685/kWh with prayer for provisional authority.

Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated June 30, 2000, were issued setting the application for hearing on August 1 and 2, 2000.

In the same Order, FIBECO was directed to cause the publication of the Notice of the Public Hearing at its own expense, twice (2x) in two (2) newspapers of general circulation in the Philippines, which should include one (1) newspaper of local circulation within FIBECO's franchise area, the last day of publication to be made not later than two (2) weeks before the date of the initial hearing.

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

Likewise, the Municipal Mayors of the Municipalities within FIBECO's franchise were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

During the initial hearing on August 1, 2000, only the counsel for FIBECO was present. No oppositors appeared nor was there any opposition registered.

At the said hearing, FIBECO presented its witnesses who testified in support of the application for rate increase. The hearing scheduled on August 2, 2000 was cancelled as FIBECO had already presented its witnesses.

Subsequently, on August 4, 2000, FIBECO submitted its "Formal Offer of Evidence".

ERC Case No. 2001-936:

On December 20, 2001, FIBECO filed an application 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 June 3, 2002 were issued setting the application for hearing on July 12, 2002.

In the same Order, FIBECO was directed to cause the publication of the Notice of Public Hearing, at its own expense, at least twice (2x) for two (2) successive weeks in two (2) newspapers of nationwide 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, FIBECO published the Notice of Public Hearing in *Malaya* and *Balita* on June 17 and 24, 2002 and on June 19 and 26, 2002, respectively.

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

Likewise, Municipal Mayors of Wao, Lanao del Sur, San Fernando, Pangantocan, Maramag, Kalilangan, Kadingilan, Kibawe, Dancagan, Damulog, Kitao-tao, Quezon, Don Carlos and Valencia all in the province of Bukidnon were furnished copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

Upon evaluation of the records, it was found that the rates being prayed for by FIBECO in its application for rate increase (ERC Case No. 2001-697) were included in its application for approval of its unbundled rates (ERC Case No. 2001-936).

At the initial hearing on July 12, 2002, only the counsel for FIBECO appeared. No oppositor appeared nor was there any opposition registered.

During the said hearing, FIBECO submitted proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-12", inclusive. Thereafter, FIBECO presented

its two (2) witnesses. The first witness, Ms. Luzviminda Pallasigue, FIBECO's Finance Manager, testified on certain relevant schedules and on the documents submitted in support of the application. After the termination of the direct examination, the Commission propounded clarificatory questions on the same witness. In the course of her testimony, additional documents were presented, identified by reference and marked as Exhibits "D" to "R", inclusive.

The second witness, Mr. Daniel Tangara, FIBECO's Technical Services Manager, testified on the various technical aspects of the application including its proposed program for the development and improvement of its services. After the termination of the direct examination, the Commission again propounded clarificatory questions on the said witnesses.

In the same hearing, FIBECO was directed in open court to submit an explanation on functionalized metering of payroll cost category.

On July 22, 2002, FIBECO submitted said data/documents.

In the Commission's letter dated September 3, 2002, FIBECO was directed to submit, within five (5) working days from receipt thereof, certain documents/data.

On various dates, FIBECO submitted said documents/data.

On March 25, 2003, FIBECO submitted its "Formal Offer of Evidence" which was admitted by the Commission for the purposes for which they were being offered.

## I. SUMMARY OF FIBECO'S APPLICATION

### I.A. REVENUE REQUIREMENT

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

Account Name	TEST YEAR
kWh Sales	56,952,118
Purchased Power	PhP 139,491,098
Payroll	29,545,270
Operation and Maintenance (less Purchased Power & Payroll)	23,295,746
Debt Service (plus interest cost of cash working capital )	17,148,406
Revenue Requirement	PhP 209,480,520
Other Revenue Items	0
Reinvestment Fund (11%) <sup>1</sup>	23,228,564
<b>TOTAL REVENUE REQUIREMENT</b>	<b>PhP 232,709,084</b>

FIBECO's proposed revenue requirement was PhP 232,709,084 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.4736/kWh. The same OATA was stated by witness Pallasigue, in her testimony on July 12, 2002 (Transcript of Stenographic Notes (TSN), July 12, 2002, page 14).

FIBECO also submitted Audited Financial Statements for the year 2000.

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

**I.B. RATE STRUCTURE/DESIGN**

The unbundled rates proposed by FIBECO were as follows:

Residential		
Energy Charge	PhP 2.4492	Per kWh
Customer Charges		
Supply Charge	19.7900	/Customer/month
Metering Charge	36.3700	/Customer/month
Commercial		
Energy Charge	2.4493	Per kWh
Customer Charges		
Supply Charge	17.9900	/Customer/month
Metering Charge	38.4700	/Customer/month
Wholesale (COTELCO)		
Energy Charge	2.4492	Per kWh
Demand Charge	41.4500	Per kW
Customer Charges		
Supply Customer Charge	3.8400	/Customer/month
Metering Charge	26.1600	/Customer/month
Industrial		
Energy Charge	2.4492	Per kWh
Demand Charge	69.5300	Per kW
Customer Charges		
Supply Charge	4.7300	/Customer/month
Metering Charge	25.2700	/Customer/month
Public Buildings		
Energy Charge	2.4492	Per kWh
Customer Charges		
Supply Charge	18.4200	/Customer/month
Metering Charge	36.7400	/Customer/month
Street Lights		
Generation Charge	3.6265	Per kWh
Distribution Facilities Charge	56.1600	/ Customer/month

### **I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION**

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

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

### **I.B.2. SYSTEM LOSS**

Witness Pallasigue, in her testimony, stated that FIBECO's system loss in the year 2000 was 13.00% (July 12, 2002, TSN, page 22).

The system loss of 13.00% was also confirmed by witness Tangara in his testimony (July 12, 2002, TSN, page 60). He added that for the year 1999, FIBECO's system loss was 15.92%. Furthermore, witness Tangara stated that the decrease in system loss from 15.92% (for the year 1999) to 13.00% (for the year 2000) was due to load balancing and line upgrading, conversion of secondary line to primary line, replacement of transformers, additional capacitor, and replacement of broken insulators undertaken by FIBECO (July 12, 2002, TSN page 61).

The system loss reflected in FIBECO's unbundling application, particularly Schedule J: System Loss was 13.00%.

### I.B.3. INTER-CLASS CROSS SUBSIDY

FIBECO 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	111,353,766	134,104,970	22,751,204
Commercial	62,855,213	52,460,780	(10,394,433)
Wholesale COTELCO	2,581,958	2,611,292	29,334
Industrial	40,035,505	29,102,827	(10,932,678)
Public Buildings	11,383,631	9,938,398	(1,445,233)
Street Lights	4,499,011	4,490,817	(8,194)
<b>Total</b>	<b>232,709,084</b>	<b>232,709,084</b>	<b>0.00</b>

### I.B.4. LIFELINE RATE and LEVEL

FIBECO proposed the following level and rate for marginalized end-users:

	Option 1 (Equal to Existing Rate)	Option 2 (At Proposed Customer Charge Only)
<b>Level</b>	15 kWh	15 kWh
<b>Rate</b>	PhP 3.7438/kWh	PhP 56.16/month

### **I.C. OTHER CHARGES**

FIBECO, in its subsequent submission, provided this Commission with information on its existing Other Charges as shown below.

<b>PARTICULARS</b>	<b>Rates</b>
1. Membership Fees	PhP 5.00
2. Inspection Fee	5.00

## **II. COMMISSION DISCUSSIONS and CONCLUSIONS**

### **II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT**

#### **II.A.1. TEST YEAR**

The Commission finds FIBECO'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 the historical test year 2000.

#### **II.A.2. GENERATION and TRANSMISSION COSTS**

At present, FIBECO is buying power only from the National Power Corporation (NPC).

The Generation and Transmission charges shall reflect the generation charges of the NPC as approved in the Commission's Orders dated February 24, 2003 and May 15, 2003, Case Nos. 2003-44 [In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment (ICERA)] and 2003-156 [In the Matter of the Application for the Recovery of Fuel and Independent Power Producer Costs Under the Generation Rate Adjustment Mechanism (GRAM)] respectively; and 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]. The FOREX Component of the NPC's Generation Charge used is as of August 2003 amounting to PhP 0.2506 per kWh. A separate charge to account for the allowable system losses shall likewise be provided (please refer to Section II.B.2.d. for details). Hence, a distribution utility with a system loss that is within the allowable cap can recover from its end-users the total cost of generation and transmission. *Annualization*<sup>2</sup> of billing determinants was applied.

The upward adjustment made by the Commission to Purchased Power of PhP 3,583,095 consisted of the following:

<b>Particulars</b>	<b>Amount (PhP)</b>
Adjustment to Purchased Power Cost	7,660,119
Adjustment to System Loss	(4,077,024)
<b>Total Adjustments</b>	<b>3,583,095</b>

<sup>2</sup> 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.

The adjustment to Purchased Power Cost of PhP 7,660,119 pertains to the difference between the proposed Purchased Power of FIBECO amounting to PhP 139,491,098 and the Purchased Power cost based on the new rates of NPC and TRANSCO amounting to PhP 147,151,217.

Records show that FIBECO's average system loss for the years 2000, 2001 and 2002 was 16.38%. The Commission allowed a system loss of 14% in the calculation of FIBECO's revenue requirement as discussed in Section II.B.2.d. of this Decision. Thus, the Commission made an adjustment to system loss of PhP 4,077,024 to exclude the excess of actual system loss over the allowable recoverable cap of PhP 20,321,541.

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

<b>Particulars</b>	<b>Amount (PhP)</b>
Generation Charge	74,651,884
Transmission Charge	48,100,768
Recoverable System Loss	20,321,541
<b>TOTAL</b>	<b>143,074,193</b>

FIBECO's approved generation charge shall remain fixed until changes in NPC's generation rate are approved and authorized by the Commission pursuant to its Orders dated February 24, 2003 and May 15, 2003, Case Nos. 2003-44 [In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery

Adjustment (ICERA)] and 2003-156 [In the Matter of the Application for the Recovery of Fuel and Independent Power Producer Costs Under the Generation Rate Adjustment Mechanism (GRAM)], respectively. In which case, FIBECO shall bill its end-users the new generation charged by NPC. In the meantime, FIBECO shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

### **II.A.3. PAYROLL**

The Commission made an upward adjustment in FIBECO's payroll account by PhP 1,145,208 to update it to the current salary level of PhP 30,690,478.

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.

#### **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 FIBECO 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-users, 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 cost 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 R.A. 9136 to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins FIBECO 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.

FIBECO'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 FIBECO's viability. To this end, FIBECO should view a petition for an increase in rates to be the last recourse. In future filings, FIBECO 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.

Upon review of the components of the expenses included in the revenue requirement, the Commission did not consider the amount of PhP 5,490,294 [inclusive of Customer Prompt Payment Discount PhP 38,811 which was re-classified under Other Revenue Items (ORI)] which consist of incentive pay above NEA guidelines, liquidation for annual meeting and foundation day, payment of seed money, scholar allowance, snacks and meals, employee's premium on memorial plan, 14<sup>th</sup> month pay, donations and other

miscellaneous expenses found to have gone beyond the necessity by which these expenses were meant for. These expenses were **excluded** for revenue requirement determination. These expenses translate to PhP 0.0953/kWh which the Commission considers material.

For future rate cases, FIBECO 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. FIBECO 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 REVENUE ITEMS**

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

The Commission encourages FIBECO to improve its financial condition through the development of other related sources of revenue. However, in order to balance the interests of FIBECO and its end-users and in recognition of the fact that some of the costs incurred in providing certain services classified under ORI had already been included in the revenue requirement, the Commission is reducing the total revenue requirement by 50% of the total ORI. This reduction of 50% amounts to PhP 2,010,275 computed as shown below:

<b>Other Revenue Items</b>	<b>Amount (PhP)</b>
<b>Other Revenues</b>	
Prompt Payment Discount from NPC	2,357,656
Other Electrical Revenue	120,782
Reconnection Fees	708,576
Electric Plant Leased to Others	192,493
Revenue from Jobbing	880,917
Income from Non-Utility	217,425
<b>Total Other Revenues</b>	<b>4,477,849</b>
<b>Other Expenses</b>	
Prompt Payment Discount to Customers	(38,811)
Cost of Jobbing Control	(418,489)
<b>Total Other Expenses</b>	<b>(457,300)</b>
<b>Other Revenue Items</b>	<b>4,020,549</b>
<b>50% of the above</b>	<b>2,010,275</b>

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

#### **II.A.6. DEBT SERVICE**

The Commission made a downward adjustment of PhP 5,083,380 to assure that the debt service account included in FIBECO's revenue requirement is consistent with NEA's records. The Commission disallowed the interest cost associated with Cash Working Capital in the amount of PhP 3,236,406 as calculated by FIBECO due to lack of justification and the World Bank RERP loan which was already paid in 2001. The details of the adjustment are shown below:

LOANS	PER FIBECO (PhP)	PER NEA (PhP)	VARIANCE (PhP)
Rural Electrification:			
LOAN A	1,176,266	1,176,266	0
LOAN B	485,108	485,108	0
LOAN C	870,156	870,156	0
LOAN D	2,702,824	2,702,824	0
LOAN E	515,812	515,812	0
WORLD BANK – ESL-A	3,932,160	3,932,160	0
WORLD BANK – ESL-B	239,820	239,820	0
WORLD BANK – RERP:RE	2,142,880	2,142,880	0
WORLD BANK – RERP:LOG	1,846,564		(1,846,564)
TOTAL	13,911,590	12,065,026	(1,846,564)
Total (rounded-off by FIBECO)	13,912,000 <sup>3</sup>	12,065,026	(1,846,974) <sup>4</sup>
Interest Cost of Cash Working Capital <sup>5</sup>	3,236,406		(3,236,406)
<b>Total</b>	<b>17,148,406</b>	<b>12,065,026</b>	<b>(5,083,380)</b>

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 EC's end-users. FIBECO applied for a rate reduction under 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 April 1, 2003, granted FIBECO a Provisional Authority to reduce its rates by PhP 0.1720/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.

<sup>3</sup> Total loans per FIBECO's submission amounted to PhP 13,911,590 rounded-off by FIBECO to PhP 13,912,000.

<sup>4</sup> Difference was due to rounding-off by FIBECO.

<sup>5</sup> Interest cost of cash working capital includes FIBECO's short-term loans from DBP, LBP and MDB.

## **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 a downward adjustment of PhP 12,616,729 in the reinvestment fund account representing the excess over the 5% allowed by the Commission.

One of the main purposes of providing the 5% Reinvestment Fund is for the end-users of FIBECO 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 FIBECO;

- c) FIBECO 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 FIBECO to appear and show cause why it should continue collection of the reinvestment fund; and

- d) FIBECO shall submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Plan covering the period 2004 to 2008, one (1) year after the date of this Decision using the format to be prescribed by the Commission.

## II.A.8. REVENUE REQUIREMENT SUMMARY

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

	<b>FIBECO Proposal (PhP)</b>	<b>Adjustments (PhP)</b>	<b>ERC Approval (PhP)</b>
Purchased Power	139,491,098	3,583,095	143,074,193
Payroll	29,545,270	1,145,208	30,690,478
O & M (less PP & Payroll)	23,295,746	(5,490,294)	17,805,452
Debt Service *	17,148,406	(5,083,380)	12,065,026
Reinvestment Fund <sup>6</sup>	23,228,564	(12,616,729)	10,611,835
Other Revenue Items		(2,010,275)	(2,010,275)
<b>Total Rev. Requirement</b>	<b>232,709,084</b>	<b>(20,472,375)</b>	<b>212,236,709</b>

\* FIBECO's proposal for Debt Service includes Interest Cost of Cash Working Capital.

FIBECO proposed an OATA of PhP 0.4736/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.

The Commission, after considering adjustments of PhP 20,472,375, approves a total revenue requirement of PhP 212,236,709 based on the year 2000, equivalent to an OATA<sup>7</sup> of (PhP 0.2131)/kWh for FIBECO. 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.

<sup>6</sup> In the UFR, this item is reflected as "Plus Percentage for Cooperative Investment".

<sup>7</sup> The OATA was computed using existing approved distribution rates (inclusive of current WAC, if any) and unbundled power cost as of August 2003.

## **II.B. RATE STRUCTURE/DESIGN DETERMINATION**

### **II.B.1 FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION**

The functionalization and allocation factors used by FIBECO were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of FIBECO, 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 FIBECO 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.

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) not included by FIBECO, 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	0.1885	0.6619	0.1496

FIBECO submitted allocation of distribution costs into demand and customer-related cost using the Minimum Plant Method. This method resulted in a 46% - 54% allocation 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 are 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 charges, the Commission did not consider the BAPA as a customer class.

#### **II.B.2.b. GENERATION CHARGE**

Consistent with the Decision in ERC Case No. 2001-901, [In the Matter of the Application for Approval of the Revised Unbundled Power Rates, National Power Corporation – Applicant] dated June 26, 2002, and the Commission's Orders dated September 6 and 20, 2002, the generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Benefits to Host Communities and Franchise Charge and Foreign Exchange Rate Adjustment (FOREX). The FOREX component of the NPC's Generation Rate used pertains to the supply month of August 2003 amounting to

PhP 0.2506 per kWh. The NPC's approved rate will remain fixed until changes are authorized by the Commission pursuant to its Order dated May 15, 2003, as discussed in Section II.A.2. of this Decision. This allows FIBECO's Generation Charge to remain fixed until such time that NPC's approved rates are adjusted, thus, eliminating 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 FIBECO 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 FIBECO have been calculated based on the approved TRANSCO rates which include cross subsidy elements to be phased out over the three-year period.

Transmission Charges	Residential	Commercial	Wholesale-COTELCO	Industrial	Public Bldgs.	Street Lights
<b>YEAR 1</b>						
Demand Charge PhP/kW			19.80	16.50		
Transmission System Charge PhP/kWh	0.8110	0.8431	0.7866	0.7952	1.0508	0.7663
<b>YEAR 2</b>						
Demand Charge PhP/kW			19.80	16.50		
Transmission System Charge PhP/kWh	0.8605	0.8946	0.8388	0.8485	1.1150	0.8131
<b>YEAR 3</b>						
Demand Charge PhP/kW			19.80	16.50		
Transmission System Charge PhP/kWh	0.9100	0.9460	0.8910	0.9017	1.1791	0.8598
<b>YEAR 4</b>						
Demand Charge PhP/kW			19.80	16.50		
Transmission System Charge PhP/kWh	0.9596	0.9975	0.9432	0.9549	1.2433	0.9067

#### **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 FIBECO.

The allowed system loss is equal to the average system loss for 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 risks 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 the 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 its 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 Loss of 14% should be used in the calculation of revenue requirements at this time. This would, however, be subject to change upon the approval of a new policy by the Commission. The average Technical and Non-Technical Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of FIBECO'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 FIBECO's 2000 to 2002 average system loss was 16.38% which is higher than the aforementioned cap of 14%. Hence, the Commission used the system loss cap of 14% in the calculation of FIBECO's revenue requirement.

#### **II.B.2.e. DISTRIBUTION CHARGE**

The distribution charge shall be billed on a fixed rate per kilowatt-hour for all end-users. For Industrial and Wholesale-COTELCO, the

distribution charge shall be billed using a combination of a fixed rate per kilowatt (kW) and a fixed rate per kilowatt-hour (kWh).

FIBECO did not propose distribution wheeling rates. The Commission 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. However, other distribution utilities requesting to wheel power across FIBECO's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial consumers.

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 generated 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 (including those connected to BAPAs), the Commission orders FIBECO to use a combination of a PhP 5.00 per meter per month and a PhP 0.5007 per kWh rate for the metering function and a PhP per kWh rate for the supply function. For Commercial, Wholesale-COTELCO, Industrial, Public Buildings and Street Lights end-users, metering charge shall be billed on a fixed rate per meter per month. Unmetered Street Lights end-users will have no metering charge. On the other hand, the Commission orders FIBECO to use a fixed PhP per customer per month the supply function for all end-users.

All BAPA residential end-users will be charged with rates used for the Residential Class. FIBECO will draw the various incentives it will provide the BAPA from the revenues that will be generated from the Supply and Metering Charges from 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	Wholesale-COTELCO	Industrial	Public Buildings	Street Lights
New Cost-Based Rev. Req. PhP	212,236,709	117,232,491	50,945,876	2,409,014	27,351,956	9,874,755	4,422,617
Existing Rates Revenue PhP	224,425,521	109,557,097	59,477,034	2,539,713	36,725,155	11,094,855	5,031,667
Total Change in Revenue PhP	(12,188,812)	7,675,394	(8,531,158)	(130,699)	(9,373,199)	(1,220,100)	(609,050)
Percentage Change in Revenue PhP	(5.43)%						
Normalized Existing Revenue PhP	212,236,709	103,606,924	56,246,767	2,401,778	34,730,569	10,492,280	4,758,391
Inter-Class Cross Subsidy Amounts PhP	0	(13,625,567)	5,300,891	(7,236)	7,378,613	617,525	335,774
Class Billing Determinants kWh	57,204,510	27,901,974	15,070,831	865,559	9,259,047	2,825,635	1,281,464
Inter-Class Cross Subsidy Rates PhP / kWh		(0.4883)	0.3517	(0.0084)	0.7969	0.2185	0.2620

#### 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 FIBECO'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, FIBECO 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 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 minimum 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-watt 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 the 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 20 kWh for FIBECO. 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 FIBECO. 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	-	50%
16 kWh	-	40%
17 kWh	-	30%
18 kWh	-	20%
19 kWh	-	10%
20 kWh	-	5%

FIBECO 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 20 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 FIBECO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0581/kWh.

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

FIBECO shall coordinate with its Barangay Power Associations to gather information on the number of kWh falling under the different lifeline levels 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**

FIBECO's additional submissions to this Commission of its existing Other Charges as previously presented were 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 FIBECO. In future cases filed after Other Charges have been established based on cost, the appropriate level of deduction of the revenue derived from these charges maybe revisited.

The Other Charges of FIBECO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, FIBECO 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 not limited to the amount of actual time and wages of employees performing each task encompassed by each type of Other Charges.

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

A comparison of the estimated impact of all adjustments to the revenue requirement on the monthly bill of an average residential end-user consuming 57 kWh a month using rates based on FIBECO's actual existing rates as of August 2003 against the unbundled rates approved by the Commission is shown in the next page.

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates		
	PhP/kWh	Amount (PhP)		PhP/kWh	Amount (PhP)
Basic Rate	2.7542	156.99	Generation Charges:		
PPA	1.0226	58.29	Generation System Charge	1.0262	58.49
WAC	0.1348	7.68	Benefits to Host Communities Charge	0.0282	1.61
PAR	(0.3000)	(17.10)	FOREX	0.2506	14.28
Missionary Electrification *	0.0168	0.96	Transmission System Charge	0.8110	46.23
Environmental Share	0.0025	0.14	System Loss Charge	0.3552	20.25
Loan Condonation	(0.1720)	(9.80)	Distribution Charge	0.8320	47.42
			Supply Charge	0.3604	20.54
			Metering Charges:		
			Retail Customer / Month		5.00
			Metering System Charge	0.5007	28.54
			Inter-Class Cross Subsidy Charge	(0.4883)	(27.83)
			Universal Charge:		
			Missionary Electrification Charge*	0.0168	0.96
			Environmental Share	0.0025	0.14
			Lifeline Rate[(Discount)/Subsidy]	0.0581	3.31
			Rate Reduction due to Loan Condonation	(0.1720)	(9.80)
			Power Act Rate Reduction	(0.3000)	(17.10)
<b>TOTAL BILL</b>		<b>197.16</b>	<b>TOTAL BILL</b>		<b>192.04</b>
<b>PhP/kWh **</b>		<b>3.4589</b>	<b>PhP/kWh</b>		<b>3.3691</b>
* <b>Missionary Electrification Charge</b> will change from PhP 0.0168/kWh to PhP 0.0373 pursuant to the final authority dated June 26, 2003 on ERC Case No. 2002-165.					
<b>Rate Reduction due to Loan Condonation.</b> Per ERC Order dated April 1, 2003 in ERC Case No. 2003-91 (as provided in Section II.A.6 of this Decision).					

## DISPOSITION

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

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

	Residential	Commercial	Wholesale-COTELCO	Industrial	Public Buildings	Street Lights
<b>Generation Charges:</b>						
Generation System Charge      PhP/kWh	1.0262	1.0262	1.0262	1.0262	1.0262	1.0262
Franchise & Benefits to Host Communities Charge      PhP/kWh	0.0282	0.0282	0.0282	0.0282	0.0282	0.0282
FOREX Adjustment Charge      PhP/kWh	0.2506	0.2506	0.2506	0.2506	0.2506	0.2506
<b>Transmission Charges:</b>						
Demand Charge      PhP/kWh			19.80	16.50		
Transmission System Charge      PhP/kWh	0.8110	0.8431	0.7866	0.7952	1.0508	0.7663
<b>Distribution Charges:</b>						
Demand Charge      PhP/kWh			19.80	16.50		
Distribution System Charge      PhP/kWh	0.8320	0.3901	0.1986	0.2893	0.5077	0.9872
<b>System Loss Charge</b> PhP/kWh	0.3552	0.3552	0.3552	0.3552	0.3552	0.3552
<b>Supply Charges:</b>						
Retail Customer Charge      PhP/Customer/ Month		19.43	19.43	19.43	19.43	19.43
Supply System Charge      PhP/kWh	0.3604					
<b>Metering Charges:</b>						
Retail Customer Charge      PhP/Meter/ Month	5.00	90.59	90.59	307.43	30.10	65.80
Metering System Charge      PhP/kWh	0.5007					
<b>Inter-Class Cross Subsidy Charge</b> PhP/kWh	(0.4883)	0.3517	(0.0084)	0.7969	0.2185	0.2620
<b>Universal Charges: (PhP/kWh)</b>						
Missionary Electrification Charge	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Share	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
<b>Lifeline Rate (Discount)/Subsidy</b> PhP/kWh	0.0581	0.0581	0.0581	0.0581	0.0581	0.0581
<b>Power Act Reduction</b> PhP/kWh	(0.3000)					
<b>Rate Reduction due to Condonation of Loan</b> PhP/kWh	(0.1720)	(0.1720)	(0.1720)	(0.1720)	(0.1720)	(0.1720)
<b>Missionary Electrification Charge</b> was adjusted from PhP 0.0168/kWh to PhP 0.0373/kWh pursuant to the final authority granted by ERC in its Decision dated June 26, 2003 on ERC Case No. 2002-165.						
<b>Lifeline Rate (Discount)/Subsidy</b> To be based on residential rate in a graduated scale as provided in Section II.B.4. of this Decision.						
<b>Rate Reduction due to Loan Condonation</b> as per ERC Order dated April 1, 2003 in Case No. 2003-91.						

2. To direct FIBECO to comply with the following:
  - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates; FIBECO shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission;
  - b) Discontinue the application of the Wage Adjustment Clause (WAC) formula upon effectivity of the approved unbundled rates;
  - c) 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 Availment from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
  - d) 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);

- e) 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 rate of zero or have not yet been determined by the Commission;
  
- f) Inform the end-users within its franchise area of the said approved unbundled rates not later than thirty (30) days after receipt of this Decision;
  
- g) Submit for verification and confirmation purposes on or before the twentieth (20<sup>th</sup>) day of the month following the effectivity of the approved unbundled rates and every month thereafter:
  - 1) five (5) sample bills for each end-users class; 2) copy of bills from the generation and transmission companies; and
  - 3) Monthly Financial and Statistical Reports (MFSRs) complete with all related schedules;
  
- h) 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;

- i) 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;
  
- j) File a progress report on the reinvestment fund 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;
  
- k) Submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Program covering the period 2004 to 2008, one (1) year after the date of this Decision using a format to be prescribed by the Commission; and
  
- l) 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, September 22, 2003.

**MANUEL R. SANCHEZ**  
Chairman

**OLIVER B. BUTALID**  
Commissioner

**CARLOS R. ALINDADA**  
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