

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

IN RE PETITION/APPLICATION FOR
AUTHORITY TO INCREASE RATES
WITH PROVISIONAL AUTHORITY

ERC CASE No. 2001-224

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

ERC CASE NO. 2001-909

**MISAMIS ORIENTAL I ELECTRIC
COOPERATIVE, INC. (MORESCO I),**
Applicant.

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DECISION

Before this Commission for resolution are the consolidated applications filed by applicant Misamis Oriental I Electric Cooperative, Inc. (MORESCO I) for : (a) authority to increase its rates by PhP 0.20/kWh with prayer for provisional authority filed on July 15, 1993 and docketed as ERC Case No. 2001-224 (ERB Case No. 93-74); and (b) approval of its unbundled rates pursuant to the provision of Republic Act No. 9136 filed on December 26, 2001 and docketed as ERC Case No. 2001-909.

ERC Case No. 2001-224:

On July 15, 1993, MORESCO I filed an application for authority to increase its rates by PhP 0.20/kWh with prayer for provisional authority.

Having found the 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 July 27, 1993, were issued setting the case for initial hearing on August 27 and 31, 1993.

In the same Order, MORESCO 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 Philippines, the last date of publication to be made not later than two (2) weeks before the date of initial hearing.

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 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 Mayors of the Municipalities within MORESCO I's franchise area were furnished with copies of the Order and the Notice of

Public Hearing for the appropriate posting thereof on their respective bulletin boards.

Several hearings were conducted whereby MORESCO I was able to present its evidence, both testimonial and documentary, while the other parties, including oppositors and intervenor National Electrification Administration (NEA) were afforded ample opportunity to be heard through the filing of their respective position papers.

On July 6, 1994, the then Energy Regulatory Board (ERB) issued an Order provisionally authorizing MORESCO I to increase its electric rates by an average of PhP 0.20/kWh applicable to all customers except large load customers. Said increase to be implemented in July 1994.

ERC CASE NO. 2001-909:

On December 26, 2001 MORESCO I filed an application for approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136.

Having found the 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 July 12, 2002, were issued setting the case for initial hearing on August 29, 2002.

In the same Order, MORESCO 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 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, MORESCO I published the Notice of Public Hearing in *"Manila Times"* and *"Kabayan"* both on July 25, 2002 and August 1, 2002. In addition, MORESCO I published the same Notice of Public Hearing in two (2) newspapers of regional circulation namely, the *"Goldstar Daily"* on August 14 and 21, 2002 and *"Sunstar"* on August 19 and 20, 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 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 City Mayor of Cagayan De Oro and the Municipal Mayors of Lugait, Manticao, Naawan, Initao, Libertad, Gitagum, Laguindingan, Alubijid, El Salvador, all in the Province of Misamis Oriental and the Municipal Mayors of Talakag, and Baungon, all in the Province of Bukidnon, were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On July 9, 2002, applicant submitted its "Revised Compliance" praying that the revised schedules be admitted and approved together with the proposed Overall Average Tariff Adjustments (OATA) in the amount of PhP 0.4167/kWh.

At the initial hearing on August 29, 2002, the following entered their appearances: Atty. Zenon Suarez for MORESCO I; Engr. Roberto Mallillin and Mr. Amado Pacpaco, representing the industrial consumers as intervenors.

During the said hearing, MORESCO I 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, MORESCO I presented its two (2) witnesses. The first witness, Mr. Benjamin C. Ellarina, Jr., MORESCO I's Finance Manager-OIC, testified on MORESCO I's financial reports and schedules attached to the application accordingly marked as Exhibits "D" to "O", inclusive. The direct examination of said witness having been terminated, intervenors likewise cross-examined said witness. In the course thereof, MORESCO I was directed to furnish said intervenor with a copy of its audited financial statements and a re-computation of the figures submitted by MORESCO I as revenues derived from its biggest client, Asia Brewery, Inc. (ABI).

Finally, the Commission propounded some clarificatory questions on the same witness. In the course thereof, MORESCO I was directed to

submit, within twenty (20) days from said date of hearing, the following documents:

1. Margin on how to reduce costs;
2. Program on how to reduce costs;
3. Program on the removal of cross-subsidies;
4. Details on its accounts receivables;
5. List of top twenty (20) delinquent consumers for year 2000;
6. Detailed breakdown of the Miscellaneous expenses, member services and meal and provisions as per audited financial statements;
7. Report on outages.

The second witness, Engr. Joel B. Ubay-Ubay, MORESCO I's Engineering (Technical Services) Manager, testified on the various technical aspects of the application. After the termination of the direct examination, the same intervenors cross-examined the witness and the Commission likewise propounded clarificatory questions.

Thereafter, the applicant was required to submit a program on its priorities which MORESCO I promised to submit within twenty (20) calendar days from August 29, 2002.

Upon evaluation of the records of the two (2) applications, it was found that the rates being prayed for by MORESCO I in its application for rate increase (ERC Case No. 2001-224) were included in its application for approval of its unbundled rates (ERC Case No. 2001-909).

Thus, on January 13, 2003, the Commission issued an Order consolidating ERC Case No. 2001-224 with ERC Case No. 2001-909.

On April 15, 2003, the Commission issued an *Acknowledgement* acknowledging receipt of the "Formal Offer of Evidence" filed by MORESCO I on April 4, 2003.

I. SUMMARY OF MORESCO I's APPLICATION

I.A. REVENUE REQUIREMENT

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

ACCOUNT NAME	TEST YEAR
KWh Sales	45,245,627
Purchased Power	PhP 100,443,138
Payroll	13,905,760
Operation & Maintenance (less Purchased Power & Payroll)	33,598,395
Debt Service	15,828,664
Revenue Requirement	163,775,957
Other Revenue Items	1,254,116
Reinvestment Fund (5.72%) ¹	9,300,910
TOTAL REVENUE REQUIREMENT	PhP 171,822,751
EXISTING REVENUE	152,747,028
Required Increase	PhP 19,075,723

MORESCO I's proposed revenue requirement was PhP 171,822,751 based on historical test year 2000 as evidenced by the published and submitted OATA of PhP 0.4167/kWh. According to witness Ellarina, MORESCO I made some revision on its original application since it does not

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

tally with the test year 2000 Audited Financial Statement. The revision was submitted to this Commission on July 9, 2002 (Transcript of Stenographic Notes (TSN), Aug. 29, 2002, p. 13).

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

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by MORESCO I were as follows:

Customer Class	Rates
Residential	
Retail	PhP 27.5500 /customer/mo.
Metering	22.4500 /customer/mo.
Energy	3.6748 /kWh
Small Commercial	
Retail	30.6900 /customer/mo.
Metering	29.3100 /customer/mo.
Energy	3.0492 /kWh
Large Commercial	
Retail	15.1800 /customer/mo.
Metering	44.8200 /customer/mo.
Energy	2.8759 /kWh
Demand	56.4300 /kWh NCP
Industrial	
Retail	23.2300 /customer/mo.
Metering	176.7700 /customer/mo.
Energy	2.4870 /kWh
Demand	117.8700 /kWh NCP
Public Buildings	
Retail	24.7900 /customer/mo.
Metering	22.2100 /customer/mo.
Energy	3.2169 /kWh

Street Lights	
Distribution Facilities	20.0000 /customer/mo.
Energy	5.3681 /kWh
Water System	
Retail	83.5300 /customer/mo.
Metering	116.4700 /customer/mo.
Energy	2.7265 /kWh

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

I.B.2. SYSTEM LOSS

The actual system loss for the year 2000 was 9.54%. MORESCO I adopted the actual purchased power cost net of Primary Voltage and Power Factor Discounts.

I.B.3. INTER-CLASS CROSS SUBSIDY

MORESCO I provided the amounts of cross subsidies for each customer type including a program for the removal thereof.

CUSTOMER TYPE	ADJUSTED EXISTING (PhP)	PROPOSED (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	86,328,538	100,776,541	14,448,003
Small Commercial	14,117,634	12,274,389	(1,843,245)
Large Commercial	31,232,078	25,592,737	(5,639,341)
Industrial	25,568,595	18,592,962	(6,975,633)
Public Buildings	6,228,856	5,865,515	(363,341)
Street Lights	2,979,859	4,438,517	1,458,658
Water System	5,367,192	4,282,091	(1,085,101)
TOTAL	171,822,752	171,822,752	0

Based on submitted UFR.

I.B.4. LIFELINE RATE and LEVEL

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

	OPTION (At Proposed Residential Rate)
Level	10 kWh
Rate	PhP 3.6748/kWh

Based on the submitted Supplemental Application, marked as Sub-schedule H-3

I.C. OTHER CHARGES

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

PARTICULARS	RATES
1. Inspection/ Installation Fee	
For Residential Consumers	
New Consumer	PhP 40.00 /Customer
Reconnection	30.00 /Customer
For Commercial Consumers	
New Consumer	80.00 /Customer
Reconnection	50.00 /Customer
Special Connection	100.00 /Customer
For Exclusive User of Transformer	
25 KVA and Above	75.00 /Transformer
10 KVA – 15 KVA	50.00 /Transformer
2. Relocation Fee	30.00 /Customer
3. Tapping Fee – Owner Consumer	100.00 /Customer
4. Calibration Fee	
Single Phase	25.00 /Meter
Three Phase	75.00 /Meter
5. Notarial Fee	100.00 /Customer
6. Membership Fee	5.00 /Customer

II. COMMISSION DISCUSSIONS AND CONCLUSIONS

In reaching its conclusions herein, the Commission took into consideration the documents, data, comments and issues submitted by the applicant, oppositors, intervenors and other interested parties, their respective positions on this present application and the consolidated case (ERC Case No. 2001-224 , In the matter of the Petition/Application for the Authority to Increase Rates, with Provisional Authority).

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds MORESCO I's proposal to use the test year 2000 in its revised 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

At present, MORESCO I 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 Order dated February 24, 2003 and May 15, 2003, Case No. 2003-44 [In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment (ICERA)] and ERC Case No. 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 NPC’s Generation Charge used is as of December 2003 amounting to PhP 0.2207/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 the generation and transmission. *Annualization*² of the billing determinants was applied.

The adjustment made by the Commission to Purchased Power Cost of PhP 34,660,070 pertains to the difference between the proposed Purchased Power of MORESCO I amounting to PhP 100,443,138 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to PhP 135,103,208.

Records show that MORESCO I’s average system loss (excluding cooperative own use) for the years 2000, 2001 and 2002 was 9.0159%. The Commission allowed the pertained system loss in the calculation of MORESCO I’s revenue requirement as discussed in Section II.B.2.c. of this Decision.

Based on the new NPC generation charges and transmission charges, as well as the allowable system loss, the Commission sets

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.

MORESCO I's unbundled Generation, Transmission and Recoverable System Losses as follows:

Generation Charge	PhP 58,522,905
Transmission Charge	63,740,019
Recoverable System Losses	12,840,284
Total	PhP 135,103,208

MORESCO 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 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, MORESCO I shall bill its end-users the new generation rate charged by NPC. In the meantime, MORESCO I shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission made an upward adjustment on the payroll account by PhP 3,744,321 to update it to the current salary level of

PhP 17,650,081. This took into account the implemented salary increases granted by the Regional Wage Board for the years 2001 and 2002.

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 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 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 an

electric distribution utility, are recurring and should redound to the service or benefit of end-users.

The Commission enjoins MORESCO I to incur only “prudent and reasonable costs” for inclusion in the determination of retail rates. While a distribution utility is allowed to pass through its costs of purchased power and other reasonable costs to 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 or 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 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 MORESCO I to institute and report to the Commission its policies

and procedures for cost-cutting and for the transparent and competitive procurement of goods and services.

MORESCO 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 MORESCO I's viability. To this end, MORESCO I should view a petition for an increase in rates to be the last recourse. In future filings, MORESCO 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 2,023,031 on MORESCO I's Operation and Maintenance (O & M) Expenses consisting of the following:

Excluded Expenses

Amount in the UFR that exceeds what is allowed under
NEA Guidelines

- Pension & Retirement	PhP	995,534
Payment of Previous Vale (not an expense account)		86,837
Consumer Prompt Payment Discount		
- Reclassified to Other Revenue Items		<u>940,660</u>
Total Excluded Expenses	PhP	<u><u>2,023,031</u></u>

The Commission rules that the reductions and exclusions in O & M expenses do not fall under the qualifications heretofore cited, hence, are not

allowed for revenue requirement determination. These expenses translate to PHP 0.0437/kWh which the Commission considers material.

For future rate cases, MORESCO I will continually be required to make full disclosure of all its O & M Expenses for the Commission to determine the prudence of its expenditures. MORESCO I should ensure that procedures are put in place so that all expenditures that are included in the determination of revenue requirements are adequately documented and that such documentation is reasonably accessible to 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 MORESCO I to improve its financial [operation](#) through the development of other related sources of revenue. However, in order to balance the interests of MORESCO I and its end-users and in recognition of the fact that the costs incurred in providing certain services classified under ORI had already been included in the revenue requirement, the Commission [has adopted the following](#): 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-users by including 50% in the revenue requirement.

The total non-asset based ORI which were not deducted from the revenue requirement amounts to PhP 1,764,592.

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

Other Revenue Items

Prompt Payment Discount, net of Consumer	
Prompt Payment Discount (PhP 940,660)	PhP 3,376,467
50% of the Above	PhP <u>1,668,234</u>

MORESCO I did not include the cost and revenue related to its sales to the special load customers, they being directly connected to NPC and are only paying royalties to the cooperative (TSN, Aug. 29, 2002, p. 29).

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

II.A.6. DEBT SERVICE

The Commission made a net downward adjustment of PhP 5,760,003 to assure that the debt service included in MORESCO I's

revenue requirement is consistent with NEA's records. The details of the adjustment are shown below.

LOANS	LOAN PROFILE		
	PER NEA (PhP)	PER MORESCO I (PhP)	DIFFERENCE (PhP)
Rural Electrification:			
APT³		3,150,000	(3,150,000)
A	147,728	147,728	
B	1,319,640	1,319,640	
C	310,772	310,772	
D	25,100	25,100	
E	16,704	16,704	
F	5,396,496	5,050,326	346,170
G	461,564	461,564	
World Bank – RERP:			
Construction A	1,160,084	1,160,084	
Logistical⁴		639,897	(639,897)
Staging Area⁵	1,129,236	1,129,236	
Other Loan:			
Bliss I Livelihood	101,337	2,417,613	(2,316,276)
TOTAL	10,068,661	15,828,664	(5,760,003)

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) shall be passed on to the ECs' end-users. MORESCO I 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.

³ This represents loans made to the Asset Privatization Trust and was fully paid as of December 2002.

⁴ Fully paid as of December 2001.

⁵ Captioned under MORESCO I as Construction Loan B.

The Commission, in its Order on this matter dated May 7, 2003, granted MORESCO I a Provisional Authority to reduce its rate by PhP 0.1344/kWh effective on the 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

MORESCO I made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 9,300,910.

The Commission permits a reinvestment fund equivalent to 5% of 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 841,673 on the reinvestment fund account to bring it to the 5% allowed by the Commission.

One of the main purposes of providing the 5% Reinvestment is for the end-users of MORESCO 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 MORESCO I;
- c. MORESCO 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 MORESCO I to appear and show cause why it should continue collection of the reinvestment fund; and

- d. MORESCO 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. REVENUE REQUIREMENT SUMMARY

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

ACCOUNT NAME	MORESCO I PROPOSAL	ADJUSTMENTS	ERC APPROVAL
Purchased Power PhP	100,443,138	34,660,070	135,103,208
Payroll	13,905,760	3,744,321	17,650,081
O & M (less PP & Payroll)	33,598,395	(2,023,031)	31,575,364
Other Revenue Items	(1,254,116)	(434,118)	(1,688,234)
Debt Service	15,828,664	(5,760,003)	10,068,661
Reinvestment Fund	9,300,910	841,673	10,142,583
TOTAL REVENUE REQUIREMENT PhP	171,822,751	31,028,912	202,851,663

MORESCO I proposed an OATA of PhP 0.4167/kWh using rates of year 2000. 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 31,028,912 approves a total revenue requirement of PhP 202,851,663 equivalent to an OATA of PhP 0.3424/kWh for MORESCO I. The actual impact to end-users will depend on the level of rates currently being charged. This impact is illustrated in Sec. 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 MORESCO I were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of MORESCO 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 MORESCO 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.

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 the transmission function.

Third, since the Commission is now including Other Revenue Items (ORI) not included by MORESCO I in the calculation of its revenue requirement, it was necessary to functionalize and allocate these amounts. The functionalization factors for the ORI, which were determined based on direct assignment were, as follows:

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

MORESCO I submitted a classification of distribution costs into demand- and customer-related cost using the *Minimum-Plant Method*. This method resulted in a 32%-68% 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 (BAPA) 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, the reading of meters and billing of power bills 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 which 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 separate 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 Order dated May 15, 2003, 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 NPC's Generation Rate used pertains to the supply month of December 2003 amounting to PhP 0.2207 per kWh. This allows MORESCO I's Generation Charge to remain fixed until such time that NPC's approved rate is adjusted. 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 MORESCO 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 MORESCO I have been calculated based on the approved TRANSCO rates which include cross subsidy elements to be phased out over a three-year period.

Transmission Charges	Residential	Small Commercial	Large Commercial	Industrial	Public Bldgs.	Street Lights	Water System
October 2003 – September 2004							
Demand Charge PhP/kW			26.40	26.40			
Transmission System Charge PhP/kWh	1.5217	1.3503	1.0410	0.9911	1.4026	1.3965	1.3274
October 2004 – September 2005							
Demand Charge PhP/kW			26.40	26.40			
Transmission System Charge PhP/kWh	1.6851	1.5117	1.2006	1.1496	1.5646	1.5585	1.4886
October 2005 – September 2006							
Demand Charge PhP/kW			26.40	26.40			
Transmission System Charge PhP/kWh	1.8624	1.6708	1.3422	1.2814	1.7293	1.7225	1.6452

The Commission utilized the Coincident Peak Allocation Method on the transmission costs, considering that it yielded the most reasonable result for MORESCO I's end-users.

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 MORESCO I.

The allowed system loss is equal to the average system loss (excluding cooperative own use) for the years 2000, 2001 and 2002 of 9.0159% 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 cap shall not be recovered from the end-users as discussed 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 found that MORESCO I's 2000 to 2002 average system loss (exclusive of cooperative own use) was 9.0159% which is lower than the aforementioned cap of 14%. Hence, the Commission considered the pertained system loss of 9.0159% in the calculation of MORESCO I's revenue requirement. 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 MORESCO 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.

II.B.2.e. DISTRIBUTION CHARGE

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

MORESCO I did not propose for distribution wheeling rates. However, 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. Other distribution utilities requesting to wheel power across MORESCO I's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial customers.

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 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 end-users 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 MORESCO I to use a PhP 5.00 per meter per month and PhP 0.6468 per kWh rate for the metering function and orders MORESCO I to use a PhP per kWh rate for the supply function. Street light end-users without meter shall be billed with a fixed monthly customer charge for the supply function and no charge for the metering function. All other end-users shall be billed fixed monthly customer and meter charges for supply and metering functions, respectively.

All BAPA residential end-users will be charged with rates used for the Residential Class. The revenue that will be generated from the Supply and Metering Charges for BAPA end-users will comprise the fund from which MORESCO I will draw various incentives it provides the same.

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	Small Comm'l	Large Comm'l	Industrial	Public Bldgs.	Street Lights	Water System
New Cost-Based Rev. Reqs. PhP	202,851,663	118,069,838	15,256,667	29,088,933	21,373,969	7,062,437	6,620,347	5,379,472
Existing Rates Revenue PhP	186,989,374	96,267,332	16,395,383	32,733,328	26,185,933	7,018,073	3,088,690	5,300,635
Total Change in Revenue PhP	15,862,289	21,802,506	(1,138,716)	(3,644,395)	(4,811,964)	44,364	3,531,657	78,837
%Change in Revenue	8.48%							
Normalized Existing Rev. PhP	202,851,663	104,433,679	17,786,202	35,510,093	28,407,283	7,613,416	3,350,703	5,750,287
Inter-Class Cross Subsidy PhP		(13,636,159)	2,529,535	6,421,160	7,033,314	550,979	(3,269,644)	370,815
Class Billing Determinants kWh	46,321,755	23,794,826	4,003,048	7,992,071	6,476,015	1,734,689	790,810	1,530,296
Inter-Class Cross Subsidy Charge PhP/kWh		(0.5731)	0.6319	0.8034	1.0861	0.3176	(4.1346)	0.2423

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 the TRANSCO in its Decision dated June 26, 2002, Case No. 2001-901, which impacts the unbundled transmission rates for MORESCO 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, MORESCO 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 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 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 kWh for MORESCO 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 MORESCO I. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

20	kWh and below	-	50%
21-25	kWh	-	45%
26	kWh	-	40%
27	kWh	-	35%
28	kWh	-	30%
29	kWh	-	25%
30	kWh	-	15%
31-35	kWh	-	10%

MORESCO 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 35 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 MORESCO I, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0674/kWh.

The Commission believes that BAPAs' marginalized residential end-users should likewise enjoy the benefit of lifeline rates. For this purpose, MORESCO I's BAPAs that comprise of residential and commercial end-users were appropriately integrated into the different customer classes in which they belong.

MORESCO I 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

MORESCO I'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 MORESCO I. 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 may be revisited.

The Other Charges of MORESCO I are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, MORESCO 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 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 AVERAGE RESIDENTIAL CONSUMER

A comparison of the estimated impact of all adjustments to the revenue requirement on the monthly bill of an average residential end-user consuming 125 kWh a month, using rates based on MORESCO 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		
		Amount			Amount
	PhP/kWh	(PhP)		PhP/kWh	PhP
Basic Rate	2.5455	318.19	Generation Charges:		
			Generation System Charge	1.0145	126.81
WAC	0.0690	8.63	Benefits to Host Comm. Charge	0.0282	3.53
			FOREX	0.2207	27.59
PPA	0.9351	116.89	Transmission System Charge	1.5217	190.21
			System Loss Charge	0.2772	34.65
Power Act Rate Reduction (0.3000)	(0.3000)	(37.50)	Distribution Charge	0.9218	115.23
			Supply Charge	0.2679	33.49
Universal Charge:			Metering Charges:		
Missionary Elect. Charge	0.0373	4.66	Retail Customer Charge/Month		5.00
Environmental Charge	0.0025	0.31	Metering System Charge	0.6468	80.85
			Universal Charges:		
Loan Condonation (0.1344)	(0.1344)	(16.80)	Missionary Electrification Charge	0.0373	4.66
			Environmental Change	0.0025	0.31
			Inter-class Cross Subsidy Charge	(0.5731)	(71.63)
			Lifeline Rate (Discount)/Charge	0.0674	8.43
			Power Act Rate Reduction	(0.3000)	(37.50)
			Loan Condonation Rate Reduction	(0.1344)	(16.80)
TOTAL BILL		394.38	TOTAL BILL		504.83
PhP/kWh		3.1550	PhP/kWh		4.0386

DISPOSITION

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

- To approve the unbundled schedule of rates of MORESCO I to be effective on the first billing cycle thirty (30) days after receipt of this Decision:

		Res.	Small Comm.	Large Comm.	Industrial	Public Bldgs.	Street Lights	Water System
Generation Charges:								
Generation System Charge	PhP/kWh	1.0145	1.0145	1.0145	1.0145	1.0145	1.0145	1.0145
Benefits to Host Comm. Charge	PhP/kWh	0.0282	0.0282	0.0282	0.0282	0.0282	0.0282	0.0282
FOREX Adjustment Charge	PhP/kWh	0.2207	0.2207	0.2207	0.2207	0.2207	0.2207	0.2207
Transmission Charges:								
Demand Charge	PhP/kW			26.40	26.40			
Trans. System Charge	PhP/kWh	1.5217	1.3503	1.0410	0.9911	1.4026	1.3965	1.3274
System Loss Charge	PhP/kWh	0.2772	0.2772	0.2772	0.2772	0.2772	0.2772	0.2772
Distribution Charges:								
Demand Charge	PhP/kW			26.40	26.40			
Dist. System Charge	PhP/kWh	0.9218	0.6345	0.7463	0.5614	0.7053	5.0968	0.5601
Supply Charges:								
Retail Customer Charge	PhP/Cust./Mo.		21.31	22.93	37.91	21.26	21.20	21.61
Supply System Charge	PhP/kWh	0.2679						
Metering Charges:								
Retail Customer Charge	PhP/Meter/Mo.	5.00	56.22	55.62	54.84	56.22		56.22
Metering System Charge	PhP/kWh	0.6468						
Inter-class Cross Subsidy Charge:	PhP/kWh	(0.5731)	0.6319	0.8034	1.0861	0.3176	(4.1346)	0.2423
Universal Charge:								
Mission. Elect. Charge	PhP/kWh	0.0373	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	0.0025	0.0025
Lifeline Rate (Discount)/Charge	PhP/kWh	0.0674	0.0674	0.0674	0.0674	0.0674	0.0674	0.0674
Loan Condonation*	PhP/kWh	(0.1344)	(0.1344)	(0.1344)	(0.1344)	(0.1344)	(0.1344)	(0.1344)
Power Act Rate Reduction	PhP/kWh	(0.3000)						
Lifeline Rate (Discount)/ Subsidy shall be based on Residential Rate in a graduated scale as provided in Sec. II.B.4. of this Decision.								
* Rate Reduction due to Loan Condonation as per ERC Order dated May 7, 2003 on Case No. 2003 – 149								

2. To direct MORESCO I to comply with the following:
 - a. Discontinue charging the PPA upon effectivity of the approved unbundled rates; any changes in the cost of power purchased shall be reflected as deferred charges or credits which shall be recovered through GRAM and ICERA;
 - b. Discontinue the application of the WAC formula and its implementation upon effectivity of this Decision;

- 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-user's bill even if the rate elements currently have a value of zero or have not yet been determined by the Commission;
- f. Inform the end-users within its franchise area of the 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 (20th) day of the month following the effectivity of the approved unbundled rates and every month thereafter: a) five (5) sample bills for each end-user class; b) copy of the bills from the generation and transmission companies; and c) 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 no later than one (1) year after the date of this Decision and every year thereafter using the prescribed formats provided in Annexes "B" and "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, and actual current system losses;

- k. 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; 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, January 26, 2004.

LETICIA V. IBAY
Officer-In-Charge

OLIVER B. BUTALID
Commissioner

CARLOS R. ALINDADA
Commissioner

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