

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. 2001-907

BOHOL I ELECTRIC COOPERATIVE,
INC. (BOHECO I),

Applicant.

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D E C I S I O N

Before this Commission for resolution is the application filed on December 20, 2001 by applicant Bohol I Electric Cooperative, Inc. (BOHECO I) for the 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 October 4, 2002 were issued setting the same for hearing on July 23, 2002.

BOHECO 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, BOHECO I published the Notice of Public Hearing in "*Taliba*" and "*Balita*", both on June 25 and July 1, 2002, and June 26 and July 3, 2002, respectively. In addition, the Notice was likewise published in the *Bohol Times* on June 16 and 23, 2002.

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

Likewise, the Municipal Mayors of Albuquerque, Antequera, Baclayon, Balilihan, Batuan, Bilar, Calape, Carmen, Catigbian, Clarin, Corella, Cortes, Daus, Dimiao, Inabanga, Lila, Loay, Loboc, Loon, Maribojoc, Panglao, Sagbayan, San Isidro, Sevilla, Sikatuna and Tubigon, all in the Province of Bohol, and within the franchise area of BOHECO I 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 hearing of this case on July 23, 2002, only the counsel for BOHECO I appeared. No oppositor appeared nor was there any opposition registered.

BOHECO I presented its proofs of compliance with the Commission's publication and posting of notice requirements which were marked as Exhibits "A" to "C-25, inclusive. Thereafter, it presented its witnesses, Ms. Andresa P. Delantar, BOHECO I's Internal Auditor and Engr. Teofilo T. Sagarino, BOHECO I's Engineering Department Manager, for direct examinations. Witness Delantar testified on the preparation of the various documents including the schedules to support the application. On the other hand, witness Sagarino testified on the technical aspects of the application. In the course of their testimonies, documents were presented and marked as Exhibits "D" to "V", inclusive.

After the termination of the direct examinations, the Commission propounded clarificatory questions. In the course thereof, BOHECO I was directed to submit the following: a) Computation of Lifeline Rate for Residential Customers; b) Frequency Distribution of Customers per Municipality; and c) Board Resolution No. 48-2002.

On September 2, 2002 and October 10, 2002, BOHECO I filed its "Post Hearing Submissions" and " Formal Offer of Evidence", respectively.

I. SUMMARY OF BOHECO I's APPLICATION

I.A. REVENUE REQUIREMENT

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

Account Name	Test Year
Fuel	1,779,000
Purchased Power	100,870,000
Payroll	46,488,000
Operation and Maintenance (less Purchased Power & Payroll)	60,172,000
Other Expenses	0
Debt Service (plus interest cost of cash working capital)	8,801,000
Revenue Requirement	218,110,000
Less: Other Revenue Items	0
Reinvestment Fund ¹ (3.15%)	6,882,000
TOTAL REVENUE REQUIREMENT	224,992,000

BOHECO I's proposed revenue requirement was PhP 224,992,000 based on audited historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.0227/kWh based on year 2000 (July 23, 2002, TSN page 19).

BOHECO I also submitted its Audited Financial Statements for the year 2000.

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

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by BOHECO I were as follows:

Residential/BAPA Energy Charge Retail Customer Charge Metering Charge	PhP 4.8791 12.03 19.74	/kWh /Customer/mo. /Customer/mo.
Small Commercial Energy Charge Retail Customer Charge Metering Charge	 4.1636 17.18 28.17	 /kWh /Customer/Mo. /Customer/Mo.
Large Commercial Energy Charge Retail Customer Charge Metering Charge Demand Charge Distribution Transmission	 2.9513 17.33 28.00 136.08 220.00 24.58	 /kWh /Customer/Mo. /Customer/Mo. /NCP kW /NCP kW /NCP kW
Industrial Energy Charge Demand Charge Retail Customer Charge Metering Charge Distribution Transmission	 3.1861 113.86 20.83 31.25 219.02 24.61	 /kWh /NCP kW /Customer/Mo. /Customer/Mo. /NCP kW /NCP kW
Industrial High Voltage Energy Charge Demand Charge Retail Customer Charge Metering Charge Distribution Transmission	 2.8795 79.03 0.00 0.00 384.67 23.31	 /kWh /NCP kW /Customer/Mo. /Customer/Mo. /KVA /KVA
Public Buildings Energy Charge Retail Customer Charge Metering Charge	 3.4695 17.15 28.17	 /kWh /Customer/Mo. /Customer/Mo.
Street Lights Energy Charge	 5.5820	 /kWh

The Distribution Wheeling rates proposed by BOHECO I were as follows:

Residential/BAPA Distribution System Charge Metering Charge	PhP 4.8791 19.74	/kWh /Customer/mo.
Small Commercial Distribution System Charge Metering Charge	4.1636 28.17	/kWh /Customer/Mo.
Large Commercial Distribution System Charge Metering Charge	2.9513 17.33	/NCP kW /Customer/Mo.
Industrial Distribution System Charge Metering Charge	3.1861 113.86	/NCP kW /Customer/Mo.
Industrial High Voltage Distribution System Charge Metering Charge	2.8795 79.03	/KVA /Customer/Mo.

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

I.B.2. SYSTEM LOSS

Witness Sagarino, in his testimony, stated that the actual System Loss for the year 2000 was 8.7% (TSN, July 23, 2003 page 70).

I.B.3. INTER-CLASS CROSS SUBSIDY

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

CUSTOMER TYPE	ADJUSTED EXISTING (PhP)	PROPOSED EXISTING (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential/BAPA	137,297,939	149,255,000	11,957,061
Small Commercial	33,519,786	29,553,000	(3,966,786)
Large Commercial	23,554,799	18,663,000	(4,891,799)
Industrial	12,851,915	11,424,000	(1,427,916)
Industrial High Voltage	6,009,813	5,949,000	(60,813)
Public Buildings	7,677,725	5,723,000	(1,954,725)
Street Lights	4,080,022	4,425,000	344,978
Total	224,991,999	224,991,999	0

Based on the submitted Supplemental Application, marked as Schedule H-1

I.B.4. LIFELINE RATE and LEVEL

BOHECO I in its Post Hearing Submission proposed the following level and rate for marginalized end-users:

Level	12 kWh
Rate	PhP 4.8907/kWh

Reference: Post-Hearing Submission

I.C. OTHER CHARGES

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

PARTICULARS	RATES/UNIT
Membership Fees	PhP 5.00
Transfer or Relocation of Meter	15.00
Special Service Fee (for urgent service drop and special lighting)	25.00 + 1.00/km.
Installation & Transfer Fees of Mercury street lighting	
Installation Fee	50.00/set of MVL
Transfer Fee (One Pole to another Pole)	100.00
Service Drop Installation Fee for new additional connection of member	25.00
Reconnection Fee	
Residential	100.00
Commercial	200.00
Industrial	300.00
Reconnection Fee for voluntary disconnection	10.00
Reconnection of disconnect delinquent consumers	30.00
Service Fee	30.00
Inspection Fee for Large Comm'l & Ind'l Establishment	
SERVICE ENTRANCE :	
60 ampere	60.00
100 ampere	100.00
200 ampere	200.00
Above 200 ampere	1.00/amp.
Electric Motor	10.00/HP
Welding Machine	10.00/kVA
Other Apparatus	10.00/kW

Penalties for the Commission of the Illegal Acts.	
1) Electrical connection without previous approval	
2) Tampering and/or using tampered kWh meter	
3) Stealing or pilferage of kWh meter or electric wire	
4) Knowingly possessing stolen or pilfered kWh meter	
Residential	
1 st / 2 nd Offense	1,000.00/2,000.00
Commercial	
1 st / 2 nd Offense	2,000.00/4,000.00
Industrial	
1 st / 2 nd Offense	2,500.00/5,000.00
5) Unauthorized transfer of kWh meter and other	
Unauthorized connection	
Residential	
1 st / 2 nd Offense	500.00/1,000.00
Commercial	
1 st / 2 nd Offense	1,000.00/1,500.00
Industrial	
1 st / 2 nd Offense	1,500.00/2,000.00

II. COMMISSION DISCUSSIONS and CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

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

II.A.2. GENERATION and TRANSMISSION COSTS

At present, BOHECO I is buying power National Power Corporation (NPC). It also generates its own power in Cabilao and in Eleven (11) Island Barangays and through its Janopol Mini-Hydro Plant.

The Generation charges shall reflect the generation charges of the NPC as approved in the Commission's Orders dated February 24, 2003 and January 26, 2004, 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 2003-574 [In the Matter of the Application for the Recovery of Fuel and Independent Power Producer Costs Under the Generation Rate Adjustment Mechanism (GRAM)], respectively; Case No. 2002-01 dated December 20, 2002 [In the Matter of the Application for the Approval of the Unbundled Rates and Basic Rate Increase in the Small Island Grids, National Power Corporation (NPC) – Applicant] 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 ICERA component of the NPC's Generation Rate used is PhP 0.2207 per kWh. A separate charge to account for the allowable system loss shall likewise be provided in the bill to end-users (please refer to Section II.B.2.d. for details). Hence, a distribution utility with system loss that is within the

allowable cap can recover from its end-users the total cost of generation and transmission. *Annualization*² of the billing determinants was applied.

The adjustment made by the Commission to Purchased Power Cost of PhP 53,471,676 pertains to the difference between the proposed purchased power of BOHECO I amounting to PhP 100,870,000 and the purchased power cost based on the new rates of NPC and TRANSCO amounting to PhP 154,341,676.

Records show that BOHECO I's 2000-2002 average system loss (excluding cooperative's own use) was 8.90%. The Commission adjusted BOHECO I's recoverable system loss even though it was below the 14% cap (see Section II.B.2.d. for discussion).

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

BOHECO I (NPC and Janopol Mini-Hydro Electric Plant)

Generation Charge (NPC/Janopol)	PhP 99,396,574
Transmission Charge	40,853,998
Recoverable System Loss	14,091,104
Total	PhP 154,341,676

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.

BOHECO I's approved generation charge shall remain fixed until changes in NPC's generation rate are approved and authorized by the Commission pursuant to its Order dated September 29, 2003, Case No. 2003-291 [In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs]. In which case, any change in the cost of power purchased by BOHECO I shall be reflected as deferred charges or credit which shall be recovered through GRAM and ICERA. In the meantime, BOHECO I shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

Further, BOHECO I's fuel allocation for its diesel generators at Cabilao and Island Barangays was adjusted upward by PhP 410,671 to update it to annualized level bringing it to PhP 2,189,671. The breakdown is shown below:

BOHECO I (Cabilao & Island Barangays)

Generation Charge (Cabilao)	683,900
Generation Charge (Island Bgys)	1,505,771
Total	PhP 2,189,671

II.A.3. PAYROLL

The Commission made an upward adjustment on the payroll account by PhP 414,524, bringing this to the current salary level of PhP 46,902,524. The adjustment is due to updating salary levels approved by BOHECO I's Board thru Board Resolution No. 81, Series of 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 (3) established criteria for it to be classified under automatic adjustment clauses. These are: 1) when such costs are extremely volatile, changing rapidly over a short period of time; 2) when such volatile cost changes represent significant portions of total utility operating expenses; and 3) when such volatile cost changes are beyond the ability of the utility to control.

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

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

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

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

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

“Reasonable costs” may be defined as the 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 BOHECO I to institute and report to the Commission its respective policies and procedures for cost-cutting and for the transparent and competitive procurement of goods and services.

BOHECO 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 BOHECO I's viability. To this end, BOHECO I should view a petition for an increase in rates to be the last recourse. In future filings, BOHECO 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 41,536,870 on BOHECO I's Operation and Maintenance (O & M) expenses as follows:

EXCLUDED EXPENSES

Cooperative kWh Consumption - this was already included in the computation of System Loss Charge in the cost of power.	PhP	213,350
Bonus and Allowances - Amount in the UFR that exceed what is allowed under NEA Guidelines		366,898
Excluded Expenses to bring OATA granted by the Commission to the OATA requested by the cooperative		6,053,635
Total		<u>6,633,883</u>
Upward adjustment to provide for an annual provision of Retirement Fund of Employees		(90,000)
Customer Prompt Payment Reclassified to ORI		1,957,000
Generation-Related Expenses reclassified to Purchased Power Cost		33,035,987
Net Adjustment	PhP	<u>41,536,870</u>

These expenses were excluded for revenue requirement determination and translate to PhP 0.0027/kWh, which the Commission considers material.

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

II.A.5. OTHER REVENUE ITEMS

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

The Commission encourages BOHECO I to improve its financial operation through the development of other related sources of revenue. In order to balance the interests of BOHECO I and its end-users and in recognition of the fact that some of the costs incurred in rendering services under ORI had already been included in the revenue requirement, the Commission has adopted the following policy. The ORI that arises from activities not related to the business of the cooperative nor involves the use of its assets will not be deducted from the revenue requirement of the cooperative. The ORI that arises out of related business activities or is asset

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

The total non-asset based ORI which were not deducted from the total revenue requirement amounts to PhP 8,472,507.

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

OTHER REVENUE ITEMS	AMOUNT	
Prompt Payment Discount (net)	PhP	1,091,440
Rental of Electric Property		747,813
Total Asset-Based Revenue		1,839,253
50 % of above	PhP	919,627

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

II.A.6. DEBT SERVICE

The Commission accepts the proposal made by BOHECO I since it was found to be consistent with NEA's records. The details of the accepted loan schedule are shown below:

LOANS	AMOUNT (PhP)
Rural Electrification:	
LOAN A	1,048,576
LOAN B	1,227,364
LOAN C	212,848
LOAN D	1,943,940
LOAN E (OD)	1,805,260
World Bank – RERP-RE	810,668
Compac Loan	1,752,544
TOTAL	8,801,200

As per UFR Application, BOHECO I rounded off figures to the nearest thousands.

Thus, the total allowable amount of debt service in the determination of the revenue requirement is PhP 8,801,000.

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 PSALM shall be passed on to the ECs' end-users. BOHECO I applied for a rate reduction pursuant to the Guidelines for the Implementation of the Reduction in Rates of the Electric Cooperatives Due to Condonation of Debts issued by the Commission on October 21, 2002, as amended on November 15, 2002.

The Commission, in its Order dated June 09, 2003, granted BOHECO I a Provisional Authority to reduce its rates by PhP 0.1026/kWh effective on the next billing cycle after receipt of the said Order. The said reduction in rates is likewise shown on the rate schedule provided in the Disposition of this Decision.

II.A.7. REINVESTMENT FUND

The Commission permits a reinvestment fund equivalent to 5% of a cooperative's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in an upward adjustment of PhP 5,220,651 to the reinvestment fund account representing the balance under the 5% allowed by the Commission.

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

- d) BOHECO 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 BOHECO I:

Account Name	BOHECO I Proposal	Adjustments	ERC Approval
Fuel	1,779,000	410,671	2,189,671
Purchased Power	100,870,000	53,471,676	154,341,676
Payroll	46,488,000	414,524	46,902,524
O & M (less PP & Payroll)	60,172,000	(41,536,870)	18,635,130
Debt Service	8,801,000	0	8,801,000
Reinvestment Fund ³	6,882,000	5,220,651	12,102,651
Other Revenue Items	0	(919,627)	(919,627)
Total Rev. Requirement	224,992,000	17,061,025	242,053,025

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

BOHECO I proposed an OATA of PhP 0.0227/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 17,061,025, approves a total revenue requirement of PhP 242,053,025 based on the year 2000, equivalent to an OATA of PhP 0.0227/kWh for BOHECO I. There is a difference in the computation of the OATA published by the cooperative and the OATA approved by the Commission. The published OATA pertains to the difference between BOHECO I's proposed revenues and the actual revenues (consisting of the approved power cost component plus the average Purchased Power Adjustment (PPA) for the year 2000 and the approved distribution costs). On the other hand, the OATA approved by the Commission pertains to the difference between the approved revenue requirement and the calculated actual revenues, both computed at current purchased power costs level. Hence, the resulting OATA accounts only for the distribution component from which BOHECO I directly benefits.

The actual impact to end-users will depend on the level of rates currently being charged. This impact (as illustrated in Sec. II.B.6. of this Decision) appears to be higher than the approved OATA because it includes the impact on the power cost which is merely a pass through cost by the cooperative.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1 FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

Factor Name	Functionalization Factor Description	Total Check	Generation	Transmission	Distribution	Supply	Metering
ORI	Other Revenue Items	1.0000	0.0000	0.0000	0.5934	0.4066	0.0000

BOHECO I submitted a classification of distribution cost into demand- and customer-related cost using the Minimum-Plant Method. This method resulted in a 76%-24% 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 is responsible for the maintenance of the electric lines and other installed equipment, and the reading and billing of respective member end-users. The cooperatives, in this regard, are mandated to grant various incentives to BAPAs such as three percent (3%) prompt payment discount, rebates on kWh sold, system loss allowance, honorarium for working BAPA officers, annual cash rewards for outstanding BAPAs, and livelihood projects.

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

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

II.B.2.b. GENERATION CHARGE

Consistent with the Commission's Orders dated January 26, 2004, Case No. 2003-574 [In the Matter of the Application for the Recovery of Fuel and Independent Power Producer Costs Under the Generation Rate Adjustment Mechanism (GRAM)], ERC Case No. 2002-01 [In the Matter of the Application for the Approval of the Unbundled Rates and Basic Rate Increase in the Small Island Grids, National Power Corporation (NPC) – Applicant], the revised generation charge to be billed to end-users shall be the approved rate

per kilowatt-hour including Franchise Benefits to Host Communities and Incremental Currency Exchange Rate Adjustment (ICERA). The ICERA component of NPC's Generation charge used is PhP 0.2207/per kWh. The NPC- Main and NPC-SPUG's approved generation rate will remain fixed until changes are authorized by the Commission pursuant to the afore-stated Order dated September 29, 2003, upon its filing of the last GRAM and ICERA petition to recover the deferred generation charge and FOREX for the test periods February 2003 to September 2003. In which case, any change in the cost of power purchased by BOHECO I shall be reflected as deferred charges or credit which shall be recovered through GRAM and ICERA. 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 BOHECO 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 BOHECO I have been calculated based on the approved TRANSCO rates, which include cross subsidy elements to be phased out over a three-year period. The following transmission charges will apply to all end-users, consistent with the gradual phase-out of the intra-grid cross subsidies:

Transmission Charges	Resd'l	Small Comm'l	Large Comm'l	Ind'l	Public Bldgs.	Street Lights
October 2003 – September 2004						
Demand Charge PhP/kW			16.50	16.50		
Transmission System Charge PhP/kWh	1.0517	0.7538	0.8058	1.0396	0.3806	0.7834
October 2004 – September 2005						
Demand Charge PhP/kW			16.50	16.50		
Transmission System Charge PhP/kWh	1.2122	0.8688	0.9370	1.2088	0.4387	0.9029
October 2005 – September 2006						
Demand Charge PhP/kW			16.50	16.50		
Transmission System Charge PhP/kWh	1.8307	1.3121	1.4423	1.8608	0.6626	1.3636

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 BOHECO I.

The allowed system loss is equal to the average system loss (excluding cooperatives' own use) for the year 2000, 2001 and 2002 or the system loss cap, whichever is lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risk of over or

under-recovery in the event its load characteristics change through time. The system loss not only results in additional unbundled generation costs but also additional unbundled transmission costs to be paid by end-users. When system loss is within the allowable cap, the distribution utility shall recover from the end-users all generation and transmission costs. Thus, system loss in excess of the allowable caps shall not be recovered from the end-users as calculated in Section II.A.2. of this Decision.

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

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

The Commission found that BOHECO I's 2000 to 2002 average system loss (excluding cooperatives' own use) was 8.90% which is lower than

the aforementioned cap of 14%. The Commission, hence, considered their System Loss average of 8.90%. This would however be subject to change upon the approval of a new policy relative thereto by the Commission.

II.B.2.e. DISTRIBUTION CHARGE

The distribution charge shall be billed on a fixed rate per kilowatt-hour for Residential, Small Commercial, Public Building and Street Lights end-users. In the case of BOHECO I's Industrial and Large Commercial end-users, the distribution charge shall be billed using a combination of a fixed rate per kilowatt (kW) and a fixed rate per kilowatt-hour (kWh).

BOHECO I made a proposal for distribution wheeling rates. The Commission however believes that wheeling rates are parallel to the cost of service functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided on Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market. Other distribution utilities requesting to wheel power across BOHECO I's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial end-users.

The Commission's decision to allow a distribution utility to avail of the Distribution Wheeling Charges of another distribution utility is based on the general intent of R.A. 9136 to promote a competitive generation market. Distribution utilities that currently or in the future shall rely in full or in part on the distribution facilities of another distribution utility should not be held captive

by the other distribution utility in the purchase of the unbundled generation. Therefore, Distribution utilities are, prohibited from bundling or tying the sale of generation or purchased power with the sale of unbundled distribution wheeling service.

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

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost-of-service principle, however, the Commission also considers rate design impacts across the spectrum of customers within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal of revenue flows that may be characterized as intra-class cross subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users, the Commission orders BOHECO I to use a combination of a PhP 5.00 per customer per month and a PhP 0.4252 per kWh rate for the metering function. On the other hand, the Commission orders BOHECO I to use a PhP per kWh rate for the supply function.

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

Supply and Metering Charges for BAPA end-users will comprise the fund from which BOHECO 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 Commercial	Large Commercial	Industrial	Public Bldgs.	Street Lights
New Cost-Based Revenue Requirement	242,053,025	164,902,836	32,492,147	20,605,546	12,465,560	6,518,260	5,068,676
Existing Rates Revenue	241,079,516	152,291,280	36,671,952	25,282,025	13,842,211	8,458,105	4,533,943
Total Change in Revenue	973,509	12,611,556	(4,179,805)	(4,676,479)	(1,376,651)	(1,939,845)	534,733
Percentage Change in Revenue	0.40%						
Normalized Existing Revenue	242,053,025	152,906,252	36,820,038	25,384,117	13,898,107	8,492,259	4,552,252
Inter-Class Cross Subsidy Amounts (PhP)		(11,996,584)	4,327,891	4,778,571	1,432,547	1,974,000	(516,424)
Class Billing Determinants (in kWh)	42,791,379	27,091,413	6,500,222	4,443,239	2,439,542	1,504,630	812,333
Inter-Class Cross Subsidy Rates (PhP / kWh)		(0.4428)	0.6658	1.0755	0.5872	1.3120	(0.6357)

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 BOHECO 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, BOHECO I will continue to charge the inter-class cross subsidy rates set forth in Section II.B.3.a. above.

II.B.4. LIFELINE RATE and LEVEL

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

In determining the lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income end-users by considering two (2) lighting facilities at 20 watts each and a 50-watts radio that are being used for a reasonable number of hours. In setting the maximum level of lifeline

consumption, the Commission may adjust the minimum level of consumption and/or level of the lifeline discount so as to maximize the benefit to low income end-users while keeping the costs associated with such subsidy between PhP 0.05 and PhP 0.10 per kWh. Thus, the Commission sets the lifeline consumption maximum level of 17 kWh for BOHECO 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 BOHECO I. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

16 kWh and below	-	10%
17 kWh	-	5%

BOHECO 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 17 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 BOHECO I the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0527/kWh.

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

BOHECO I shall coordinate with its Barangay Power Associations to gather information on the number of kWh falling under the different lifeline level and the 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

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

The Other Charges of BOHECO I are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, BOHECO I is ordered to make a compliance filing on its Other

Charges one (1) year from the date of this Decision using a format to be prescribed by the Commission.

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

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

A comparison of the estimated impact of all adjustments on the revenue requirement on the monthly bill of residential end-users at the Bohol mainland consuming an average of 40 kWh a month; at the Cabilao Island, at a monthly average of 18 kWh; and at the Island Barangays, whose average falls within the lifeline level at 15 kWh per month using rates based on BOHECO I's actual existing rates as of January 2004 against the unbundled rates approved by the Commission is shown below.

BOHECO I – NPC and Janopol Mini-Hydro Electric Plant

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates		
40 kWh	PhP/kWh	Amount (PhP)	40 kWh	PhP/kWh	Amount (PhP)
Basic Rate	3.6609	146.44	Generation Charges:		
PPA	1.8079	72.32	Generation System Charge	2.3368	93.47
Univ. Charge			Transmission Charge	1.0517	42.07
Missionary Electrification	0.0373	1.49	System Loss Charge	0.3313	13.25
Environmental Charge	0.0025	0.10	Distribution Charge	1.5334	61.34
Loan Condonation	(0.1026)	(4.10)	Supply Charge	0.2361	9.44
Power Act Reduction	(0.2147)	(8.59)	Metering Charges:		
			Retail Customer Charge / Month		5.00
			Metering System Charge	0.4252	17.01
			Inter-Class Cross Subsidy	(0.4428)	(17.71)
			Universal Charge:		
			Missionary Electrification Charge	0.0373	1.49
			Environmental Charge	0.0025	0.10
			Lifeline Rate [(Discount)/Subsidy]	0.0527	2.11
			Power Act Reduction	(0.2147)	(8.59)
			Loan Condonation	(0.1026)	(4.10)
TOTAL BILL		207.66	TOTAL BILL		214.88
PhP/kWh		5.1915	PhP/kWh		5.3720

BOHOL I – Cabilao Diesel Generating Plant

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates		
18 kWh	PhP/kWh	Amount (PhP)	18 kWh	PhP/kWh	Amount (PhP)
Basic Rate	3.6609	65.90	Generation Charges:		
PPA	1.8079	32.54	Generation System Charge	5.9200	106.56
Univ. Charge			Distribution Charge	1.5334	27.60
Missionary Electrification	0.0373	0.67	Supply Charge	0.2361	4.25
Environmental Charge	0.0025	0.05	Metering Charges:		
Loan Condonation	(0.1026)	(1.85)	Retail Customer Charge / Month		5.00
Power Act Reduction	0.00	0.00	Metering System Charge	0.4252	7.65
			Inter-Class Cross Subsidy	(0.4428)	(7.97)
			Universal Charge:		
			Missionary Electrification Charge	0.0373	0.67
			Environmental Charge	0.0025	0.05
			Lifeline Rate [(Discount)/Subsidy]	0.0527	0.95
			Loan Condonation	(0.1026)	(1.85)
TOTAL BILL		97.31	TOTAL BILL		142.91
PhP/kWh		5.4061	PhP/kWh		7.9394

BOHOL I – Island Barangays Generating Plant

Lifeline Level – 15 kWh; Discount – 10%

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates		
15 kWh	PhP/kWh	Amount (PhP)	15 kWh - 10% discount*	PhP/kWh	Amount (PhP)
Basic Rate	3.6609	54.91	Generation Charges:*		
PPA	1.8079	27.12	Generation System Charge	9.5850	143.78
Univ. Charge			Distribution Charge*	1.3800	20.70
Missionary Electrification	0.0373	0.56	Supply Charge*	0.2125	3.19
Environmental Charge	0.0025	0.04	Metering Charges:*		
Loan Condonation	(0.1026)	(1.54)	Retail Customer Charge / Month*		4.50
			Metering System Charge*	0.3827	5.74
			Inter-Class Cross Subsidy	(0.4428)	(6.64)
			Universal Charge:		
			Missionary Electrification Charge	0.0373	0.56
			Environmental Charge	0.0025	0.04
			Lifeline Rate [(Discount)/Subsidy]	0.0000	0.00
			Loan Condonation	(0.1026)	(1.54)
TOTAL BILL		81.09	TOTAL BILL		170.33
PhP/kWh		5.4060	PhP/kWh		11.3553

DISPOSITION

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

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

Customer Classes Charges	Residential (Mainland)	Residential Cabilao	Residential Island Barangays	Small Comm'l	Large Comm'l	Industrial	Public Buildings	Street lights
Generation Charges								
Generation System PhP/kWh	2.3368	5.9200	10.6500	2.3368	2.3368	2.3368	2.3368	2.3368
Transmission Charges								
Demand PhP/kW					16.50	16.50		
Transmission System PhP/kWh	1.0517			0.7538	0.8058	1.0396	0.3806	0.7834
Distribution Charges								
Demand PhP/kW					16.50	16.50		
Distribution System PhP/kWh	1.5334	1.5334	1.5334	1.1909	1.0255	1.2454	0.8646	2.3220
Supply Charges								
Retail Customer PhP/mo.				11.41	11.63	10.07	11.63	4.46
Supply System PhP/kWh	0.2361	0.2361	0.2361					
Metering Charges								
Retail Customer PhP/mo.	5.00	5.00	5.00	31.03	80.43	370.06	31.77	33.21
Metering System PhP/kWh	0.4252	0.4252	0.4252					
System Loss Charge PhP/kWh	0.3313			0.3313	0.3313	0.3313	0.3313	0.3313
Cross Subsidy Credit PhP/kWh	(0.4428)	(0.4428)	(0.4428)	0.6658	1.0755	0.5872	1.3120	(0.6357)
Universal Charges								
Missionary Elec'tion PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
Lifeline Subsidy Charge	0.0527	0.0527	0.0527	0.0527	0.0527	0.0527	0.0527	0.0527
Rate Reduction due to the Condonation of Loans	(0.1026)	(0.1026)	(0.1026)	(0.1026)	(0.1026)	(0.1026)	(0.1026)	(0.1026)
Mandatory Rate Reduction	(0.2147)							

2. To direct BOHECO I to comply with the following:

a) Discontinue charging the PPA upon effectivity of the approved unbundled rates. Any change in the cost of power purchased shall be reflected as deferred charges or credit which shall be recovered through GRAM and ICERA.

b) Bill PhP 0.0373/kWh representing the missionary electrification portion of the Universal Charge in accordance

with the Decision of the Commission in ERC Case No. 2002-165 [In the Matter of the Petition for the Availments from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant];

c) Bill PhP 0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-194 [In the Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, Applicant];

d) Bill its respective end-users using a billing format which contains at least the rate elements, provided in Annex A of this Decision upon effectivity of the approved unbundled rates. The rate elements provided in Annex A should appear on the end-users' bills even if the rate elements currently have a value of zero or have not yet been determined by the Commission;

e) Inform the end-users within its franchise area of the said approved unbundled rates no later than thirty (30) days after receipt of this Decision;

f) Submit for verification and confirmation purposes on or before the twentieth (20th) day of the month following the effectivity of

the approved unbundled rates and every month thereafter:

1) five (5) sample bills for each end-user class; 2) copy of bills from the generation and transmission companies; and 3) Monthly Financial and Statistical Reports (MFSRs) complete with all related schedules;

g) Make a formal application with the Commission for the approval of existing or future contracts with any entity for the wholesale purchases of power not yet approved by the Commission;

h) Make a formal application to continue the use of Other Charges within one (1) year from date of this Decision using a format to be prescribed by the Commission;

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

j) Submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Program covering the period 2004 to 2008, no

later than one (1) year after the date of this Decision using a format to be prescribed by the Commission; and

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

SO ORDERED.

Pasig City, February 18, 2004.

RODOLFO B. ALBANO
Chairman

OLIVER B. BUTALID
Commissioner

CARLOS R. ALINDADA
Commissioner

LETICIA V. IBAY
Commissioner

JESUS N. ALCORDO
Commissioner

Copy furnished:

- 1. Atty. Zenon S. Suarez**
Counsel for Applicant
4/F Casman Building
Quezon Avenue, Quezon City 1100
- 2. Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village
City of Makati 1229
- 3. Commission on Audit**
Commonwealth Avenue
Quezon City 0880
- 4. Senate Committee on Energy**
GSIS Building, Roxas Boulevard
Pasay City 1307
- 5. House Committee on Energy**
Batasan Hills, Quezon City 1126
- 6. Energy Regulatory Commission (Visayas Field Office)**
NTC Complex, Talamban
Cebu City 6000
- 7. The Municipal Mayor**
Albuquerque, Bohol 6302
- 8. The Municipal Mayor**
Antequera, Bohol 6311
- 9. The Municipal Mayor**
Baclayon, Bohol 6301
- 10. The Municipal Mayor**
Balilihan, Bohol 6342
- 11. The Municipal Mayor**
Batuan, Bohol 6318
- 12. The Municipal Mayor**
Bilar, Bohol 6317
- 13. The Municipal Mayor**
Calape, Bohol 6328
- 14. The Municipal Mayor**
Carmen, Bohol 6319

- 15. The Municipal Mayor**
Catigbian, Bohol 6343
- 16. The Municipal Mayor**
Clarin, Bohol 6330
- 17. The Municipal Mayor**
Corella, Bohol 6337
- 18. The Municipal Mayor**
Cortes, Bohol 6341
- 19. The Municipal Mayor**
Dauis, Bohol 6339
- 20. The Municipal Mayor**
Dimiao, Bohol 6305
- 21. The Municipal Mayor**
Inabanga, Bohol 6332
- 22. The Municipal Mayor**
Loay, Bohol 6303
- 23. The Municipal Mayor**
Lila, Bohol 6304
- 24. The Municipal Mayor**
Loboc, Bohol 6316
- 25. The Municipal Mayor**
Loon, Bohol 6327
- 26. The Municipal Mayor**
Maribojoc, Bohol 6336
- 27. The Municipal Mayor**
Panglao, Bohol 6340
- 28. The Municipal Mayor**
Sagbayan, Bohol 6331
- 29. The Municipal Mayor**
San Isidro, Bohol 6345
- 30. The Municipal Mayor**
Sevilla, Bohol 6347
- 31. The Municipal Mayor**
Sikatuna, Bohol 6338

- 32. The Municipal Mayor**
Tubigon, Bohol 6341
- 33. Bohol I Electric Cooperative, Inc.**
Maca-as, Tubigon, Bohol 6341
- 34. Congressman Ernesto C. Pablo**
Representative-Party List APEC
Room 604, North Wing Building
House of Representatives
1126 Constitution Hills, Quezon City
- 35. Fr. Francisco G. Silva**
Administrator
National Electrification Administration
1128 NIA Road, Diliman, Quezon City
- 36. Mr. Edgardo M. Del Fonso**
President & CEO
Power Sector Assets & Liabilities Management Corporation (PSALM)
2/F SGVII Building, Ayala Ave. 1200 Makati City