

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



IN THE MATTER OF THE
APPLICATION FOR
AUTHORITY: TO ISSUE
BONDS OR EVIDENCE OF
LONG-TERM INDEBTEDNESS
NOT TO EXCEED A 50:50
LONG-TERM DEBT TO EQUITY
RATIO, WITH PRAYER FOR
PROVISIONAL AUTHORITY

ERC CASE NO. 2015-047 MC

MANILA ELECTRIC COMPANY
(MERALCO),

Applicant.

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DOCKETS
Date: SEP 14 2015
By: [Signature]

ORDER

On June 25, 2015, the Manila Electric Company (MERALCO) filed an application for authority to issue bonds or evidence of long-term indebtedness not to exceed a 50:50 long-term debt to equity ratio, with prayer for provisional authority.

In the said application, MERALCO alleged, among others, that:

1. It is a private corporation existing under the laws of the Republic of the Philippines, with principal office located at Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City. It may be served with notices and other processes of the Commission at its principal office address or through its counsels at the address indicated in its application;

2. It has a legislative franchise, pursuant to Republic Act No. 9209, to operate and maintain a distribution system in the cities/municipalities of Metro Manila, Bulacan, Cavite, and Rizal and certain cities/municipalities/barangays in Batangas, Quezon, Pampanga, and Laguna and is authorized to charge all its customers for their electric consumption at the rates duly approved by the Commission;
3. Section 20 (e) and (g) of Commonwealth Act No. 146, otherwise known as the Public Service Act, provides that public utilities require prior approval of the Commission before they can, among other things, "issue any bonds or other evidence of indebtedness payable in more than one year from the issuance thereof and alienate, mortgage or encumber its property, franchises, certificates, privileges, or rights or any part thereof;
4. On November 14, 2007, pursuant to said provisions of the Public Service Act, it filed an Application dated November 13, 2007 for authority to issue bonds or evidence of indebtedness for a maximum amount not to exceed its 50% debt to equity ratio.¹ After hearing on the merits and presentation of evidence, the Commission issued its Decision dated July 7, 2008 approving said Application;
5. On January 24, 2011, in order to continuously finance its operations and have sufficient available funds to ensure the quality of the service it offers, filed an Application, before the Commission, docketed as ERC Case No. 2011-007 MC², to extend the authority granted to it to issue bonds or evidence of indebtedness subject only to the condition that its long-term debt to equity ratio shall not exceed 50%. After hearing on the merits and presentation of evidence, the Commission issued its Decision dated June 29, 2011, approving said Application, subject to certain conditions;
6. Its authority to issue bonds or other evidence of long-term indebtedness under ERC Case No. 2011-007 MC is set to expire on July 1, 2015. However, there is a continuing need for it to issue bonds or other evidence of long term

¹ Entitled, "In the Matter of the Application for Authority to Issue Bonds or Evidence of Indebtedness in the Maximum Amount Not To Exceed A 50% Debt to Equity Ratio, With Prayer for Provisional Authority," docketed as ERC Case No. 2007-496 MC.

² Entitled, "In the Matter of the Application for Authority to Issue Bonds or Evidence of Indebtedness Not to Exceed the 50% Long-Term Debt To Equity Ratio, With Prayer for Provisional Authority."

indebtedness in order to finance operations and corporate requirements, invest in required capital expenditures, and meet payment obligations which will ensure the continuity and quality of service offered by it. While it would have funds available from its collections, it would not be feasible to fully expend these amounts for its projects and utility operations. At all times, it needs to have funds set aside for unforeseen events or calamities and has to ensure sufficient funds to meet current and future payment obligations on time;

7. At present, it is considering the following financing options to meet its financing needs in peso and foreign currency: a) term loans; b) corporate bonds or notes; c) project-based financing arrangements. Aside from these, there are other structures or facilities, which may be in Philippine peso or foreign currency, meant for raising long-term debt financing that it may avail of if the same will result in the lowest cost. It may consider securing long-term loans in foreign currency, to match the currency of some of its payment obligations;
8. Hence, through the instant application, it seeks the Commission's approval of a continuing authority to issue bonds or evidence of indebtedness subject only to the condition that it maintains a 50:50 long-term debt to equity ratio as calculated based on the its audited parent company financial statements submitted to the Commission;
9. It would like to stress that any funding option that it undertakes in accordance with its application will not impact or increase the rates that it charges its customers. It shall absorb all interest charges, fees and other costs related to any long-term borrowing including any foreign exchange losses on foreign debt and shall not pass these on to its customers;
10. In addition, it likewise seeks continuing authority to, whenever necessary, mortgage, pledge or encumber any of its property to any creditor in connection with the authority to issue bonds or evidence of indebtedness;
11. The provision of security may be a requirement by potential creditors to lend long-term funds to it. In fact, there may be instances when the only available or most cost-effective

financing option for it is a long-term loan with provision for security. Such provision of security will not affect or be detrimental to its provision of electric service to its customers;

12. It would correspondingly adjust the maximum amount of debt that it can maintain as its equity changes. This shall ensure that whatever indebtedness it will incur shall be closely monitored and kept at reasonable levels so as not to exceed the 50:50 long-term debt to equity ratio;
13. There are a number of long-term financing options being evaluated by it to address its continuing funding requirements. However, the process of selecting, negotiating and finalizing any financing option takes a long period of time to complete. Moreover, interest rates may fluctuate within this period so seeking approval for each and every transaction may hamper its ability to close its financing transactions in a timely manner and at the most advantageous terms. A Provisional Authority is therefore urgently needed to commence such evaluation process in order for it to take advantage of lower interest rates, less stringent security requirements, longer payment terms and other favourable terms that are available to borrowers in view of the prevailing favourable market condition. Moreover, the country's current investment grade credit rating is a positive development as this translates to lower borrowing costs for Philippine companies. It is imperative that it takes advantage of this as such favourable environment may not be sustained into the following years;
14. The immediate issuance of a Provisional Authority will ensure that there will be no disruption in the continuous delivery of service to the customers as it would be able to immediately access funds to help finance its projects and operations. In support of its application and the prayer for the issuance of a Provisional Authority, it attached to its application as **Annex "A"**, and made an integral part thereof, the Judicial Affidavit of **Ms. Ma. Cynthia C. Soluren**, Assistant Vice-President and Head, Treasury – Investment and Debt Management Office; and
15. It prays that the instant application be approved and it be granted continuing authority:

- a. To issue bonds or other evidence of indebtedness for as long as it maintains 50:50 long-term debt to equity ratio;
- b. Whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness; and
- c. Pending hearing on the merits, it prays that a provisional authority be issued.

On August 26, 2015 MERALCO filed its "Urgent Motion for Issuance of Provisional Authority".

Finding the said application to be sufficient in form and in substance with the required fees having been paid, the same is hereby set for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on **October 6, 2015 (Tuesday) at two o'clock in the afternoon (2:00 P.M.), at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

MERALCO is hereby directed to cause the publication of the attached Notice of Public Hearing, at its own expense, once (1x) in a newspaper of general circulation in the Philippines, with the date of the publication to be made not later than ten (10) days before the scheduled date of initial hearing. It is also directed to inform the consumers, by any other means available and appropriate, of the filing of the instant application, its reasons therefor, and of the scheduled hearing thereon.

Let copies of the application, this Order, and the attached Notice of Public Hearing be furnished the Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire, to send their duly authorized representatives at the scheduled hearings.

Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished the Offices of the Governors and Mayors of the Municipalities/Cities within the franchise area of MERALCO for the appropriate posting thereof on their respective bulletin boards.

MERALCO is hereby directed to furnish all those making requests therefor with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, MERALCO must submit to the Commission its written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidences on the actual posting and publication of the Notice of Public Hearing consisting of a certification issued to that effect, signed by the afore-mentioned Governors and Mayors or their duly authorized representative, bearing the seals of their offices, and the affidavit of the Editor or Business Manager of the newspaper where the said Notice of Public Hearing was published together with the complete issue of the said newspaper, and such other proofs of compliance with the requirements of the Commission.

MERALCO and all interested parties are directed to submit, at least five (5) days before the date of initial hearing and pre-trial conference, their respective Pre-Trial Briefs containing, among others:

- (a) A summary of admitted facts and proposed stipulation of facts;
- (b) The issues to be tried or resolved;
- (c) The documents or exhibits to be presented, stating the purposes thereof and proposed markings therefore; and
- (d) The number and names of the witnesses, with their written testimonies in an individual affidavit form, to be attached to the Pre-Trial Brief.

Failure of MERALCO to submit the required Pre-Trial Brief and Judicial Affidavits of its witnesses within the prescribed period shall be a ground for cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from said date of cancellation.

As part of the pre-trial conference, MERALCO must also be prepared to make an expository presentation of its application, aided by whatever communication medium that it may deem appropriate for

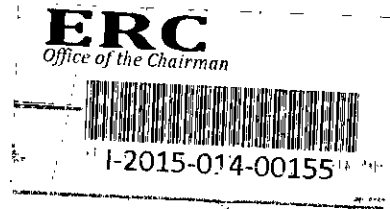
the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the application is all about and the reasons and justifications being cited in support thereof.

SO ORDERED.

Pasig City, September 7, 2015.

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSE VICENTE B. SALAZAR
Chairman 



Copy Furnished:

1. **MANILA ELECTRIC COMPANY (MERALCO)**
Attention: Attys. Jose Ronald V. Valles, Francis Dino S. Antonio, Hazel
Rose B. See and Adrian Rex C. Dimalanta
Counsels for MERALCO
7th Floor, Lopez Building
Ortigas Avenue, Barangay Ugong, Pasig City
2. **The Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village, Makati City
Metro Manila
3. **The Commission on Audit**
Don Mariano Marcos Avenue
Diliman, Quezon City, Metro Manila
4. **The Committee on Energy**
Senate of the Philippines
GSIS Building, Roxas Blvd., Pasay City, Metro Manila
5. **The Committee on Energy**
House of Representatives
Batasan Hills, Quezon City, Metro Manila
6. **Office of the President of PCCI**
Philippine Chamber of Commerce and Industry (PCCI)
3rd Floor, ECC Building, Sen. Gil Puyat Avenue
Makati City
7. **Office of the Provincial Governor**
Province of Bulacan
8. **Office of the Provincial Governor**
Province of Cavite
9. **Office of the Provincial Governor**
Province of Rizal
10. **Office of the Provincial Governor**
Province of Batangas
11. **Office of the Provincial Governor**
Province of Laguna
12. **Office of the Provincial Governor**
Province of Quezon
13. **Office of the Provincial Governor**
Province of Pampanga
14. **Office of the City Mayor**
City of Manila 1000

15. **Office of the City Mayor**
Quezon City 1100
16. **Office of the City Mayor**
City of Caloocan 1400
17. **Office of the City Mayor**
City of Makati 1200
18. **Office of the City Mayor**
City of Malabon 1470
19. **Office of the City Mayor**
City of Mandaluyong 1550
20. **Office of the City Mayor**
City of Muntinlupa 1770
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City of San Jose del Monte, Bulacan 3023
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City of Valenzuela 1440
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City of Pasig 1600
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Pasay City 1300
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City of Parañaque 1700
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Cavite City 4100
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Trece Martirez City 4109
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Las Piñas City 1740
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Lucena City 4301
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Batangas City 4200
31. **Office of the City Mayor**
San Pablo City, Laguna 4000
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City of Marikina 1800

33. **Office of the City Mayor**
Antipolo City, Rizal 1870
34. **Office of the City Mayor**
Tagaytay City, Cavite 4120
35. **Office of the City Mayor**
Calamba, Laguna 4027
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Meycauan, Bulacan 3020
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Navotas, Metro Manila 1485
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Taguig, Metro Manila 1637
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Pateros, Metro Manila 1621
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Gen. Aguinaldo, Cavite 4124
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Magallanes, Cavite 4113
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Cainta, Rizal 1900
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Obando, Bulacan 3021
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Biñan, Laguna 4024
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Sta. Rosa, Laguna 4026

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San Juan, Metro Manila 1500
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Sta. Maria, Bulacan 3022
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Angat, Bulacan 3012
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Victoria, Laguna 4011
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Luisiana, Laguna 4032
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Magdalena, Laguna 4007
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Pila, Laguna 4010
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Sta. Cruz, Laguna 4009

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Liliw, Laguna 4004
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San Pedro Tunasan, Laguna 4023
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Candelaria, Quezon 4323
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Alaminos, Laguna 4001
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Rizal, Laguna 4003
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Maragondon, Cavite 4112
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Ternate, Cavite 4111
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Gen. Trias, Cavite 4107
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Naic, Cavite 4110
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Rosario, Cavite 4106
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Tanza, Cavite 4108
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Dasmariñas, Cavite 4114
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Gen. Mariano Alvarez, Cavite 4117
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Silang, Cavite 4118
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Carmona, Cavite 4116
85. **Office of the Municipal Mayor**
Los Baños, Laguna 4030
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Cabuyao, Laguna 4025

87. **Office of the Municipal Mayor**
Bay, Laguna 4033
88. **Office of the Municipal Mayor**
Sto. Tomas, Batangas 4234
89. **Office of the Municipal Mayor**
Taytay, Rizal 1920
90. **Office of the Municipal Mayor**
Bustos, Bulacan 3007
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Guiguinto, Bulacan 3015
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Pandi, Bulacan 3014
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Bocaue, Bulacan 3018
94. **Office of the Municipal Mayor**
Bulacan, Bulacan 3017
95. **Office of the Municipal Mayor**
Balagtas, Bulacan 3016
96. **Office of the Municipal Mayor**
Teresa, Rizal 1880
97. **Office of the Municipal Mayor**
Jala-jala, Rizal 1990
98. **Office of the Municipal Mayor**
Cardona, Rizal 1950
99. **Office of the Municipal Mayor**
Baras, Rizal 1970
100. **Office of the Municipal Mayor**
Angono, Rizal 1930
101. **Office of the Municipal Mayor**
Tanay, Rizal 1980
102. **Office of the Municipal Mayor**
Baliwag, Bulacan 3006
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San Rafael, Bulacan 3008
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San Miguel, Bulacan 3011

105. **Office of the Municipal Mayor**
San Idefonso, Bulacan 3010
106. **Office of the Municipal Mayor**
San Pascual, Batangas 4204
107. **Office of the Municipal Mayor**
Pililla, Rizal 1910
108. **Office of the Municipal Mayor**
Morong, Rizal 1960
109. **Office of the Municipal Mayor**
Binangonan, Rizal 1940
110. **Office of the Municipal Mayor**
Amadeo, Cavite 4119
111. **Office of the Municipal Mayor**
Indang, Cavite 4122
112. **Office of the Municipal Mayor**
Mendez, Cavite 4121
113. **Office of the Municipal Mayor**
Alfonso, Cavite 4123
114. **Office of the Municipal Mayor**
Plaridel, Bulacan 3004
115. **Office of the Municipal Mayor**
Malolos, Bulacan 3000
116. **Office of the Municipal Mayor**
Calumpit, Bulacan 3003
117. **Office of the Municipal Mayor**
Candaba, Pampanga 2013
118. **Office of the Municipal Mayor**
Pulilan, Bulacan 3005
119. **Office of the Municipal Mayor**
Apalit, Pampanga 2016
120. **Office of the Municipal Mayor**
Rodriguez, Rizal 1860
121. **Office of the Municipal Mayor**
Kawit, Cavite 4104
122. **Office of the Municipal Mayor**
Noveleta, Cavite 4105

- 123. Office of the Municipal Mayor**
San Mateo, Rizal 1850
- 124. Office of the Municipal Mayor**
Imus, Cavite 4103
- 125. Office of the Municipal Mayor**
Bacoor, Cavite 4102
- 126. Office of the Municipal Mayor**
San Simon, Pampanga 2015
- 127. Office of the Municipal Mayor**
Hagonoy, Bulacan 3002
- 128. Office of the Municipal Mayor**
Paombong, Bulacan 3001