

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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DOCKETED  
Date: SEP 14 2015  
By: [Signature]

## NOTICE OF PUBLIC HEARING

### TO ALL INTERESTED PARTIES:

Notice is hereby given that on June 25, 2015, the Manila Electric Company (MERALCO) filed with the Commission 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, the following:

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.<sup>1</sup> After the hearing on the merits and presentation of evidence, the Commission issued its Decision dated July 7, 2008 approving the 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, it filed an Application, before the Commission, docketed as ERC Case No. 2011-007 MC<sup>2</sup>, 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 the hearing on the merits and presentation of evidence, the Commission issued its Decision dated June 29, 2011, approving said Application, subject to certain conditions;

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<sup>1</sup> 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.

<sup>2</sup> 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."

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 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".

The Commission has set the application for initial 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, 15<sup>th</sup> Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and title of the proceeding and stating: (1) the petitioner's name and address; (2) the nature of petitioner's interest in the subject matter of the proceeding, and the way and manner in which such interest is affected by the issues involved in the proceeding; and (3) a statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the proceeding may file their opposition to the application or comment thereon at any stage of the proceeding before the applicant concludes the presentation of its evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who may wish to have a copy of the application may request the applicant, prior to the date of the initial hearing, that they be furnished with a copy of the application. The applicant is hereby directed to furnish all those making such request with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the application and other pertinent records filed with the Commission during the usual office hours.

**WITNESS**, the Honorable Chairman, **JOSE VICENTE B. SALAZAR**, and the Honorable Commissioners, **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 7<sup>th</sup> day of September, 2015 at Pasig City.

  
**ATTY. FRANCIS SATURNINO C. JUAN**  
Executive Director III