

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 AND TO
MORTGAGE, PLEDGE OR
ENCUMBER PROPERTY FOR
THIS PURPOSE, WITH
PRAYER FOR PROVISIONAL
AUTHORITY**

ERC CASE NO. 2019-029 MC

**MANILA ELECTRIC
COMPANY (MERALCO),
Applicant.**

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NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 29 October 2019, Manila Electric Company (MERALCO) filed an *Application* dated 23 October 2019, for the authority to issue bonds or evidence of long-term indebtedness and to mortgage, pledge, or encumber property, with prayer for provisional authority (*Application*).

The pertinent portions of the said *Application* are hereunder quoted as follows:

1. Applicant is a private corporation existing under the laws of the Republic of the Philippines, with principal office at Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City. It may be served with notices and other processes of this Honorable Commission at its principal office address or through its counsels at the address indicated herein.
2. Applicant has a legislative franchise, pursuant to Republic Act No. 9209, to construct, 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 all rates components duly approved by the Honorable Commission.

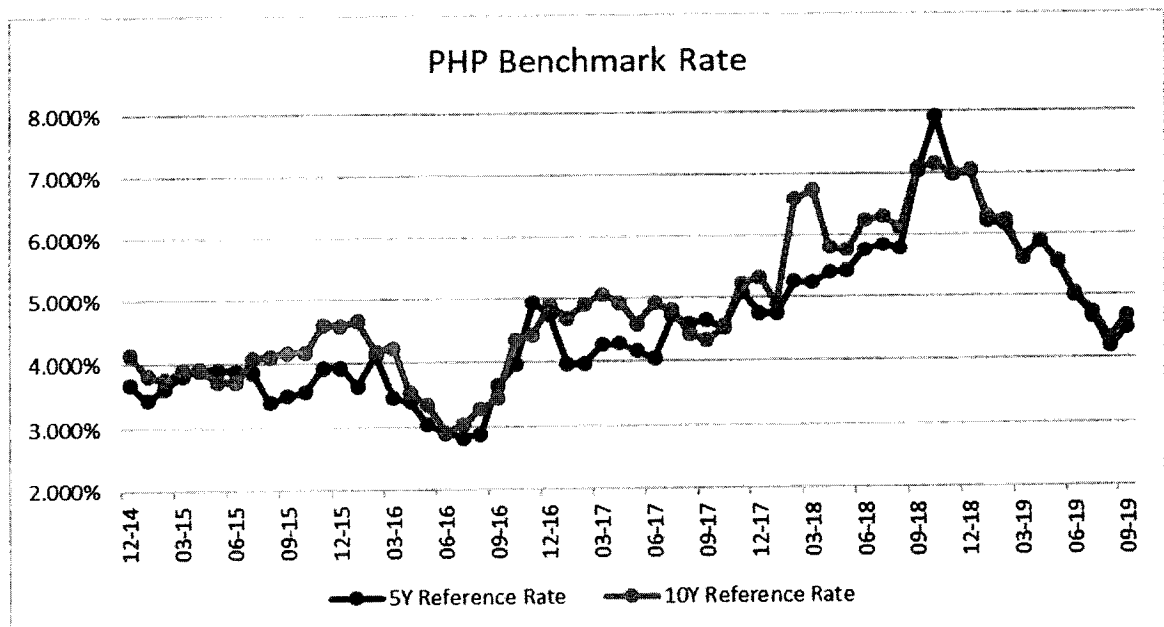
3. This Application is being filed pursuant to the provisions of Commonwealth Act No. 146, otherwise known as the Public Service Act. Sections 20 (e) and (g) thereof require public utilities to seek the prior approval of the Honorable Commission before they can “issue any bonds or other evidence of indebtedness 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. It should be noted that the Honorable Commission approved Applicant’s previous applications to issue bonds or other evidence of long-term indebtedness in its Decision dated 7 July 2008 in ERC Case No. 2007-496 MC and Decision dated 29 June 2011 in ERC Case No. 2011-007 MC. MERALCO’s previous authority to incur long-term debt ended on 30 June 2015.
5. “Long-Term Debt” is defined as any interest-bearing debt with a maturity longer than one (1) year.
6. Applicant, however, through this instant Application, would like to seek the Honorable Commission’s approval for continuing authority to issue bonds or other evidence of long-term indebtedness to finance its required capital expenditures and payment obligations. The ability of the Applicant to incur long-term debt in a timely manner will ensure the continuity and quality of service offered by the Applicant.
 - a. Applicant’s franchise mandates it to construct, maintain and operate a distribution system for the conveyance of electric power within its franchise area. Such electric distribution facilities must be operated and maintained in a superior manner. Relevant regulations by the Honorable Commission likewise set out performance standards that must be met by the distribution utility to ensure the level of service provided to end-users.
 - b. The operation and maintenance of a distribution utility is capital intensive, requiring substantial capital and operational expenditure to ensure that its delivery of service to its end-users is aligned with the performance standards set by this Honorable Commission and the requirements of Applicant’s growing customer base.

- c. The capital investment is continuing and recurring, requiring distribution utilities to constantly make large and periodic investments in order to upgrade and refresh its distribution network. It must be noted that the recovery of the costs in constructing electric facilities in order to serve customers is spread out and will only be recovered depending on the economic lives of the assets. Moreover, in order to serve energy requirements, the capital infrastructure should first be built, requiring the distribution utilities to essentially advance the costs thereof before it can then be recovered gradually through the rates. There is a considerable gap in time between when the cost for the capital infrastructure is incurred and when the cost thereof can be fully recovered.
 - d. The Applicant, like other distribution utilities, generation companies and other power players, utilizes a combination of equity from its shareholders or its internally generated cash from its operations, and debt in order to fund these requirements.
7. Although Applicant would have funds available from its collections, it would not be feasible or financially sound to fully expend these amounts for its projects and utility operations. A prudent approach to cash management requires that the Applicant always maintain a level of available funds to sustain its operations, repair and improve facilities and equipment especially in emergency situations, and provide for the other exigencies and unforeseen circumstances so that its operations are not significantly impaired.
8. Applicant would like to stress that any funding option that it undertakes in accordance with this Application will not impact or increase the rates that it charges its customers. Financing charges and foreign exchange adjustments are not among the building blocks for rate setting under Performance-based Regulation. Thus, in accordance with prevailing regulations, MERALCO shall not pass these on to its customers.
9. There are a number of long-term financing options being evaluated by Applicant and it regularly monitors interest rates and other debt-related costs to determine the most opportune time to borrow. However, interest rates are very volatile such that seeking approval for each and every transaction may hamper Applicant's ability to close its financing transactions in a timely manner and at the most advantageous terms.
10. In addition, it should be noted that the provision of security may be a requirement by potential creditors to lend long-term funds to Applicant. In fact, there may be instances when the only available or most cost-effective financing option for Applicant is a long-term loan with provision for security.

11. Thus, for as long as the financing options, which include the encumbrance of property, availed of by Applicant would not affect or be detrimental to the provision of electric service to its customers, Applicant respectfully requests that it be allowed to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or other evidence of long-term indebtedness.

ALLEGATIONS IN SUPPORT OF THE PRAYER FOR THE ISSUANCE OF A PROVISIONAL AUTHORITY

12. Below is a graph showing the movement of the Philippine 5-year and 10-year benchmark interest rate from December 2014 to September 2019.



Note: “.” represent end of periods
 Source: Bloomberg

13. The Applicant requests a Provisional Authority to commence such evaluation and negotiation process with potential lenders and arrangers especially since interest rates will continue to remain volatile due to both internal and external factors. Because interest rates can rapidly move in an upward or downward direction even within a quarter, it is essential that Applicant have the ability to execute its long-term debt drawdowns at a favorable and opportune time. The issuance of a Provisional Authority will ensure Applicant is able to manage and control its cost of borrowing.

14. Further, 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 Applicant would be able to immediately access funds to help finance its projects and operations. In support of this Application and the prayer for the issuance of a Provisional Authority, Applicant hereby attaches as **Annex “A”**, and made an

integral part hereof, the Judicial Affidavit of **Ms. Ma. Cynthia C. Soluren**, Senior Assistant Vice-President and Head, Treasury for Distribution Utility.

PRAYER

WHEREFORE, premises considered, it is respectfully prayed to the Honorable Commission that:

1. **PROVISIONAL AUTHORITY** be immediately issued authorizing the Applicant:
 - a. To issue bonds or other evidence of long-term indebtedness; and
 - b. Whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or evidence of indebtedness.
2. After hearing on the merits, the Provisional Authority be made **PERMANENT** and the instant Application be **APPROVED**.

The Commission has set the *Application* for determination of compliance with the jurisdictional requirements, expository presentation, pre-trial conference, and presentation of evidence on **9 January 2020 (Thursday) at ten o'clock in the morning (10:00 A.M.) at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 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 case may file their Opposition or Comment thereon at any stage of the proceeding



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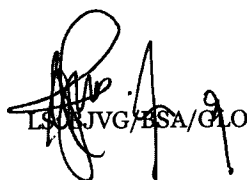
before MERALCO rests its case, subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name and address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

All such persons who wish to have a copy of the *Application* may request from the Applicant that they be furnished with the same, prior to the date of the initial hearing. MERALCO is hereby directed to furnish all those making such request with copies of the *Application* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Application* and other pertinent records filed with the Commission during the standard office hours.

WITNESS, the Honorable Commissioners **ALEXIS M. LUMBATAN**, **CATHERINE P. MACEDA** and **PAUL CHRISTIAN M. CERVANTES**, Energy Regulatory Commission, this 11 November 2019 in Pasig City.


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for Legal Service 


LSC/JVG/BSA/GLO