



Republic of the Philippines
ENERGY REGULATORY COMMISSION '19 OCT 28 P3:59
San Miguel Avenue, Pasig City

RECEIVED BY: KUF

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. 2019-029MC

MANILA ELECTRIC COMPANY
(MERALCO),

Applicant.

X-----X

BDO check P11,414.

PAID
ERC CASE NO. MC 023-082
OR NO. 17299
DATE 10-29-19
On 10-26-19 7:25pm

APPLICATION

Applicant **MANILA ELECTRIC COMPANY** ("MERALCO" for brevity), by counsel, respectfully states:

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

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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.

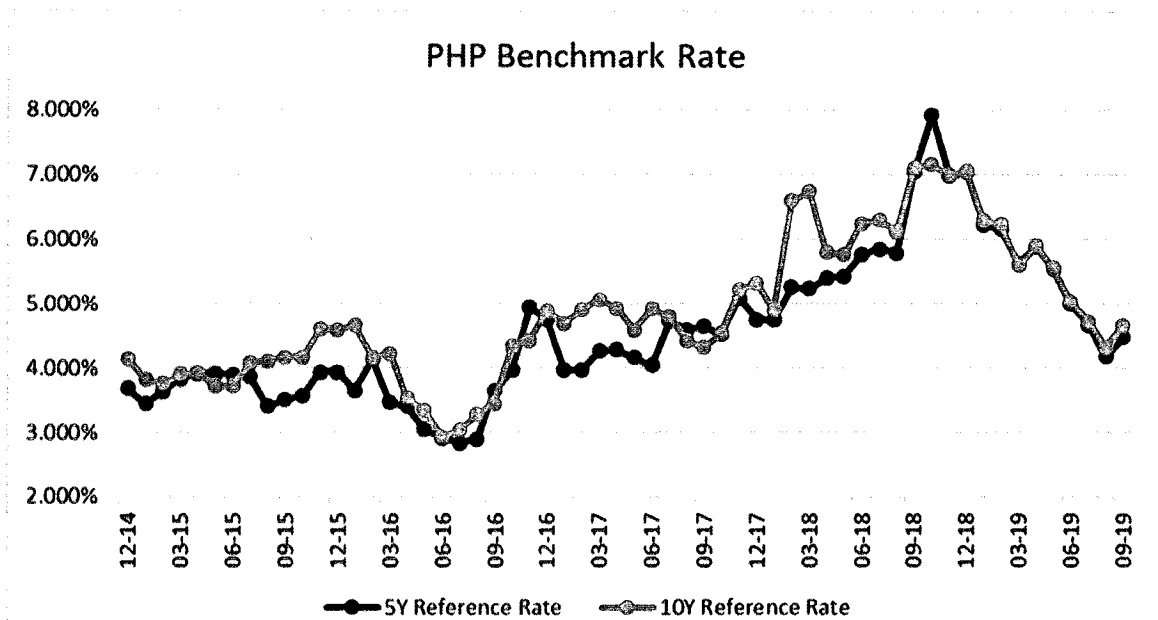
10. In addition, it should be noted that the provision of security may be a requirement by potential creditors to lend long-term funds to Applicant. In fact, there may be instances when the only available or most cost-effective financing option for Applicant is a long-term loan with provision for security.

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: "o" 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**.


Other relief just and equitable under the premises are also prayed for.

Pasig City, 23 October 2019.

MANILA ELECTRIC COMPANY

Applicant

By:



FRANCIS DINO S. ANTONIO

Roll of Attorneys No. 48145

PTR No. 5229236; 1/9/19; Pasig City

IBP No. 66245; 1/9/19; RSM

MCLE Compliance No. VI-0003791; 3 November 2017



HAZEL ROSE B. SEE

Roll of Attorneys No. 48265

PTR No. 5229237; 1/9/19; Pasig City

IBP No. 06460(LIFETIME); 01/16/07; QC

MCLE Compliance No. VI-0000253; 11 July 2016



ADRIAN REX C. DIMALANTA

Roll of Attorneys No. 61149

PTR No. 5229240; 1/9/19; Pasig City

IBP No. 66248; 1/9/19; PPLM

MCLE Compliance No. VI-0000233; 11 July 2016



ISAGANI C. CORUÑA II

Roll of Attorneys No. 63123

PTR No. 5229243; 1/9/19; Pasig City

IBP No. 66250; 1/9/19; RSM

MCLE Compliance No. VI-0007787; 6 April 2018



EDGAR MICHAEL C. ROBLES

Roll of Attorneys No. 62413

PTR No. 5312069; 1/21/19; Pasig City

IBP Lifetime No. 011798

MCLE Compliance No. VI-0000249; 11 July 2016

Counsels for Applicant

7th Floor, Lopez Building

Ortigas Avenue, Barangay Ugong, Pasig City

Tel no. 1622-2260

Email: regulatory.legal.admin@meralco.com.ph

Republic of the Philippines)
Pasig City) S.S.

VERIFICATION and CERTIFICATION OF NON-FORUM SHOPPING

I, **JOSE RONALD V. VALLES**, of legal age, married, and with office address at Manila Electric Company (MERALCO), 7th Floor, Lopez Building, MERALCO Center, Ortigas Avenue, Barangay Ugong, Pasig City, hereby state under oath that:

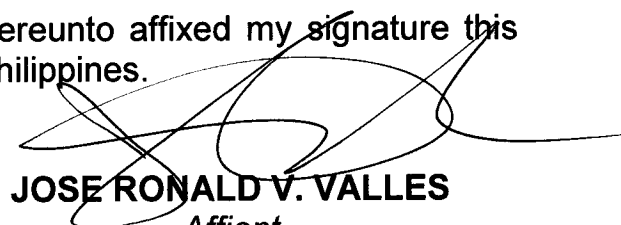
1. I am the Vice-President and Head of the Regulatory Management Office of Manila Electric Company, and is authorized to represent it in this Application as per the attached Secretary's Certificate (**Annex "B"**);

2. I have caused the preparation of the instant Application and read the contents thereof, and I attest that the allegations herein contained are true and correct based on my personal knowledge and on authentic records made available to me;

3. I have not commenced any other action or proceeding involving the same issues in the Supreme Court, the Court of Appeals or any court, tribunal, or quasi-judicial agency, and, to the best of my knowledge, no such other action or claim is pending therein other than the Partial Motion for Reconsideration dated 29 April 2016 filed by MERALCO in connection with the Order dated 22 March 2016 of the Energy Regulatory Commission (ERC) in ERC Case No. 2015-047 MC approving MERALCO's Motion to Withdraw dated 03 February 2016; and


4. Should I hereinafter learn that the same or a similar action or claim has been filed or is pending in the Supreme Court, the Court of Appeals or any court, tribunal, or quasi-judicial agency, I shall report said fact within five (5) days from discovery thereof to this Honorable Commission.

IN WITNESS WHEREOF, I have hereunto affixed my signature this 23rd day of October 2019 at Pasig City, Philippines.


JOSE RONALD V. VALLES
Affiant

SUBSCRIBED and SWORN to before me this 23rd day of October 2019, at Pasig City, Philippines, affiant having exhibited to me his Social Security System ID bearing the number 33-10900088.

Doc. No. 449 ;
Page No. 91 ;
Book No. III ;
Series of 2019.


RAYMOND B. YAP
Notary Public
Pasig, San Juan and Pateros
Issued on February 11, 2019 at Pasig City
Appointment No. 104 (2019-2020)
Roll No. 55889/ IBP No. 66249; 1/9/19; Capiz Chapter
PTR No. 5229241; 1/9/19; Pasig City
7th Floor, Lopez Bldg., Ortigas Ave., Pasig City