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**HON. ZENAIDA CRUZ-DUCUT**  
*Chairperson, Energy Regulatory Commission*  
16<sup>th</sup> Floor Pacific Center Bldg.  
San Miguel Avenue, Pasig City

**Re: Consumers Equity**

**Dear Chairperson Ducut:**

Greetings!

This refers to the reported news item on the plan of Meralco to borrow around **Eight Billion Pesos** (Php 8,000,000,000.00) from a syndicate of banks to refinance loans falling due starting this year until 2013. (News items attached)

The news item further states that Meralco needs around P8.5 billion this year for its capital expenditures, which it plans to finance from internally generated funds based on its estimated additional monthly revenues of Five Hundred Million Pesos (Php500,000,000.00) a month. These additional revenues are to be sourced from the rate increase of P0.25/kwh, which was approved for Meralco by the Energy Regulatory Commission (ERC) based on the newly-implemented Performance Based Regulation (PBR) rate setting methodology.

**The fact is very clear then that the financing of these capital expenditures does not come from the infusion of additional capital or investment from Meralco's stockholders, but actually comes from the additional payments of the Meralco customers arising from the rate increase thus, these additional funds infused by the Meralco customers should be treated as equity of the Meralco customers being the real fund providers.**

It is worth noting at this point that the rate approved by the Commission for a power utility is meant to allow it to recover the capital it has actually invested in the business both for its asset acquisitions and operating expenses so as to ensure its viable operations. This means that the rate charged by a utility like Meralco to its customers is specifically for the purpose of allowing the utility to recover its

actual investments in the business through the principle of Return Of Capital and to realize a Return on Capital through the principle of Return on Rate Base (RORB) which are both applied by the Energy Regulatory Commission in its rate setting authority.

With this understanding, we view the recent rate increase granted by the ERC for Meralco as an act granting Meralco the authority to recover presumably a new capital investment. But since Meralco has no new investments to recover out of this new rate increase then, the new rate increase under the PBR is totally unjustified and unreasonable as this new rate increase in the amount of P0.25/kwh will allow Meralco to a Return Of Capital and On Capital which it has not invested, at all.

Worse, when the equipments for the Capex are acquired, these will form part of the rate base which serves as the basis for the Return Of Capital through depreciation and Return On Capital or the Return On Rate Base (RORB) under the Performance Based Regulation so that failure to credit this rate increase as Consumers' Equity will definitely allow Meralco to unduly recover capital and earn from capital which it did not provide, in the first place.

Therefore, in order to prevent further damage to the consumers, it is proper and appropriate that ERC should direct Meralco to consider these additional revenues generated from said rate increase as CONSUMERS' EQUITY in Meralco's capital account.

This legal position is validated by the Supreme Court decision under G.R. NO. 141314, dated November 15, 2002, which reads in part,

*"the rate base, on the other hand, is an evaluation of the property devoted by the utility to the public service or the value of invested capital or property which the utility is entitled to a return."*

Further, cognizant of the impact of these outstanding Meralco loans as well as Meralco's capital expenditures this year estimated at P8.5 billion on the consumers electricity bills and for purposes of transparency and accountability of a utility firm whose business is imbued with public interest, may we request for the following documents?

1. certified individual true copies of all existing loan contracts of Meralco;
2. certified true copies of the ERC's approval of these loan applications;
3. copy of each application with the ERC for loan approval;
4. certified true copies of the latest financial statements showing the outstanding balance of each Meralco loan.

In light of this, we respectfully request the ERC, in addition to the request for the above-mentioned documents, to order Meralco, under its "*motu proprio* powers" as

provided by the law, to book such additional funds sourced from the Meralco customers arising from the rate increase for its capital expenditures as equity in the name of the Meralco customers in Meralco's capital account.

We thank you in anticipation for your immediate and favorable action on the matter.

Thank you and God bless.

cc: Hon. Juan Ponce-Enrile, Senate President  
Hon. Prospero C. Nograles, Speaker of the House  
Hon. Gregorio B. Honasan II, Senate Committee on Energy Chairman  
Hon. Juan Miguel M. Arroyo, House Committee on Energy Chairman  
Hon. Angelo T. Reyes, DOE Secretary  
Mr. Bert Hofman, Worldbank Country Director  
Mr. Neera Jain, Asia Development Bank Country Director

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Business

**Meralco eyes P8-billion loan for debt refinancing**

[By Donnabelle L. Gatdula](#) Updated June 18, 2009 12:00 AM

MANILA, Philippines – Power utility giant Manila Electric Co. (Meralco) said it may borrow P8 billion to refinance loans falling due this year until 2013, a company official said yesterday.

Meralco treasurer Rafael Andrada said they may need to raise funds for about P2.5 billion in syndicated loans which will have to be paid by the end of the year and the remaining P5 billion to P6 billion to fall due on 2013.

“Maybe we will borrow but we have to defer to the new owners. We need to refinance the loans and the timing could be better this year,” Andrada said.

Earlier, Andrada said with the approval of the performance-based rate (PBR) mechanism for

Meralco which effectively raised its distribution rate by 25 centavos per kilowatthour (kwh), the creditors may allow them to borrow.

Meralco's creditors have prevented the firm from raising more funds until after its finances are in order.

Andrada said the first board meetings with the new stockholders of Meralco — telecom giant Philippine Long Distance Telephone Co. and food and beverage conglomerate San Miguel Corp. — could discuss the possibility of raising funds for the utility firm's funding requirement to include refinancing of its maturing obligations.

The Meralco official said they may be able to cover for the capital expenditure (capex) of the utility.

This year, Meralco has set aside some P8.5 billion for capex which will come from internally-generated funds.

"We could meet our capex requirement for the year (without the need to borrow)," Andrada said.

The PBR scheme is expected to increase Meralco's revenues by about P500 million a month. Meralco had been trimming down its borrowing level for the past years.

For the first three months of 2009, the company's total debts dropped 28 percent to P16.04 billion from P22.37 billion in the same period in 2008.

The company's short-term obligations declined to P2.29 billion in the first quarter from P10.25 billion in 2008 due to the retirement of about P7.9 billion worth of debt.

Long-term loans of the power distribution firm stood at P13.75 billion as of end March.

Of the P13.75 billion long-term debts, some P13.62 billion and P13 million were secured from local and foreign sources, respectively. All the short term debts of P2.29 billion, meanwhile, were sourced locally.

#### MANILA STANDARD

Meralco may borrow to refinance P8-b loans

**By Alena Mae S. Flores**, June 18, 2009

Manila Electric Co. may resort to borrowings to refinance P7 billion to P8 billion in loans falling due starting this year until 2013, a company official said yesterday.

Meralco treasurer Rafael Andrada told reporters that around P2.5 billion worth of loans from syndicated banks would mature by the end of the year and the balance of P5 to P6 billion falling due on 2013.

"Maybe we will borrow but we have to defer [the decision] to the new owners. We need to refinance the loans and the timing could be better this year," Andrada said.

Meralco is now jointly controlled by the Lopez group, telecom giant Philippine Long Distance Telephone Co. and conglomerate San Miguel Corp.

He said Meralco needed around P8.5 billion for capital expenditure this year, which it planned to finance from internally generated funds.

“We could meet our capex requirement for the year [without the need to borrow],” Andrada said.

Meralco is more optimistic of its financial position this year after the Energy Regulatory Commission approved a higher distribution charge of P0.25 per kilowatt-hour under the performance-based rate scheme.

Meralco will earn additional revenues of about P500 million a month from the approval of the rate scheme.

THE MANILA TIMES

Thursday, June 18, 2009

### **Meralco eyes debt mart to refinance obligations**

By Euan Paulo C. Añonuevo, *Reporter*

Manila Electric Co. (Meralco) said it may tap the debt market to refinance its maturing loans within the next five years.

Rafael Andrada, Meralco treasurer, said that the company has around P2.50-billion worth of loans from banks due this year and another P5 billion to P6 billion by 2013.

Because of this, he said that the company may need to borrow to refinance the said obligations.

“We need to refinance the loans and the timing could be better this year,” he said.

Meralco is the country’s largest power distribution utility with over 4.6 million customers in the National Capital Region and its outlying provinces.

As of end-March, the utility's debt-to-equity ratio, or its degree of indebtedness using its long term debts, stood at 31 percent from 30 percent in the same period in 2008.

The company's long-term loans stood at P13.75 billion as of the first quarter. Of the amount, about P13.62 billion and P13 million were secured from local and foreign sources, respectively.

The Meralco official said that it would be up to the company's new owners if it would pursue additional borrowings to refinance its maturing obligations.

"Maybe we will borrow but we have to defer [the decision] to the new owners," he said.

The utility is now jointly controlled by the Philippine Long Distance Telephone Co. with the Lopez Group while San Miguel Corp. is the largest minority owner.

For its capital expenditures this year, which is estimated at P8.50 billion, the company is confident it could draw from its own pockets, especially with the increase in its distribution charge of P0.25 per kilowatt-hour under the performance-based regulation (PBR). "We could meet our capex requirement for the year [without the need to borrow]," Andrada said.

The PBR is a rate setting scheme whereby a utility's rates are determined by the quality of its service to its customers. It also grants a utility a yearly adjustment on its tariffs in consideration of inflation and foreign currency exchange fluctuations as well as its obligations to its franchise area.

The company, whose entry into PBR was approved by the Energy Regulatory Commission in April, said it would earn additional revenues of about P500 million a month from this scheme.

Meralco's shares closed lower Wednesday at P127 per share from P140 per share the previous day.◆