



**Manila Electric Company**

# **OPERATING & FINANCIAL RESULTS**

**1st-Quarter ending March 31, 2007**

**Investors' Briefing &  
Teleconference**

April 25, 2007 - 2:30 pm  
14th Flr. Lopez Bldg., Quezon City Room - Lighthouse

# Disclaimer

---

The information contained herein is necessarily based upon a number of assumptions and estimates that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond **Meralco**'s control and upon assumptions with respect to future business decisions which are subject to change.

Accordingly, **Meralco** cannot provide an assurance that these results will be realized. The prospective financial and other information may vary materially from actual results. **Meralco** makes no representation that these results will be achieved. Investors should not place undue reliance on the prospective financial and other information contained herein.

# Outline of Presentation

- **1Qtr 2007 Operating Highlights**
  - **Jesus P. Francisco, President**
- **Financials**
  - **Daniel D. Tagaza, EVP & Head, Finance**
- **Regulatory Updates**
  - **Ivanna G. Dela Peña, VP & Head, Utility Economics**
- **Energy Sales & Average Retail Rates**
  - **Roberto R. Almazora, FVP & Head, Customer Retail Services**
- **System Loss & System Performance**
  - **Jesus P. Francisco, President**



# 1Qtr 2007 Operating Highlights

## ■ Financials

- **Net income of P532 million from a net loss of P748 million in 2006**
- **Positive balance of P10.92 billion in Unappropriated Retained Earnings from a deficit of P2.12 billion in 2006**



# 1Qtr 2007 Operating Highlights

## ■ Overall Energy Sales

- 3.7% increase to 6,039 GWHs.

## ■ System Loss

- 1.05 percentage points improvement to 11.04%.

## ■ Quality of Service

- Declined due to necessary de-energization of most facilities for intensified line and substation maintenance activities.
  - System Reliability declined by 9.9%.
  - System Availability fell 4.8%.

## ■ Power Sourcing

- IPP Purchased Power Cost continued to be lower than those of WESM and NPC
  - Higher IPP dispatch compared to 1Qtr 2006 (71% in 1Qtr 2006 vs 83% in 1Qtr 2007)



# Financials



# Financial Highlights

## *For the 1st quarter of 2007*

- **Realized net income of P532 million, from a net loss of P748 million in the same period in 2006 mainly due to:**
  - **100% reduction in the provisioning for probable losses related to the unbundling rate case,**
  - **3.7% sales growth to 6,039 gWh, and**
  - **49.1% decrease in unrecoverable purchased power to P494.46 million.**
  
- **197% year-on-year increase in net income from P179 million to P532 million had there been no provision for probable losses in 2006.**
  
- **P10.92 billion positive balance in Unappropriated Retained Earnings recovering from a deficit of P2.12 billion in 2006.**

# Income Statements

For the Quarters Ended March 31, 2007 and 2006

(Amounts in Million Pesos)



	2007	2006	% Change
<b>REVENUES</b>	<b>48,199</b>	<b>41,614</b>	<b>15.8</b>
<b>EXPENSES (INCOME)</b>			
Purchased power	42,724	36,837	16.0
Operations and maintenance	2,833	2,347	20.7
Provision for probable losses	-	1,426	(100.0)
Depreciation and amortization	1,038	1,063	(2.4)
Interest and other financial charges - net	646	924	(30.1)
CERA II revenues	-	(349)	(100.0)
Foreign exchange losses - net	-	349	(100.0)
Interest and other financial income	(195)	(275)	(28.9)
Present value impact on customers' refund	274	378	(27.5)
Provision for disallowed receivables	51	55	(6.3)
Taxes other than income tax	32	72	(56.4)
	<b>47,402</b>	<b>42,827</b>	<b>10.7</b>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>797</b>	<b>(1,213)</b>	<b>165.7</b>
Provision for (benefit from) income tax	265	(465)	(157.0)
<b>NET INCOME (LOSS)</b>	<b>532</b>	<b>(748)</b>	<b>(171.1)</b>

# Balance Sheet Highlights

As of March 31, 2007 and 2006

(Amounts in Million Pesos)



	2007	2006	% Change
<b>ASSETS</b>			
Utility Plant and others-net	93,796	92,372	1.5
Other noncurrent assets	36,110	27,723.54	30.3
<b>Total noncurrent assets</b>	<b>129,906</b>	<b>120,095</b>	<b>8.2</b>
<b>Current assets</b>	<b>27,092</b>	<b>31,043</b>	<b>(12.7)</b>
<b>Total Assets</b>	<b>156,999</b>	<b>151,138</b>	<b>3.9</b>

<b>EQUITY AND LIABILITIES</b>			
<b>Stockholders' Equity</b>	<b>45,585</b>	<b>31,906</b>	<b>42.9</b>
<b>Noncurrent Liabilities</b>	<b>66,989</b>	<b>84,000</b>	<b>(20.3)</b>
<b>Current Liabilities</b>	<b>44,425</b>	<b>35,232</b>	<b>26.1</b>
<b>Total Liabilities</b>	<b>111,414</b>	<b>119,232</b>	<b>(6.6)</b>
<b>Total Equity and Liabilities</b>	<b>156,999</b>	<b>151,138</b>	<b>3.9</b>

# Cash Flow Highlights

For the Quarters Ended March 31, 2007 and 2006

(Amounts in Million Pesos)

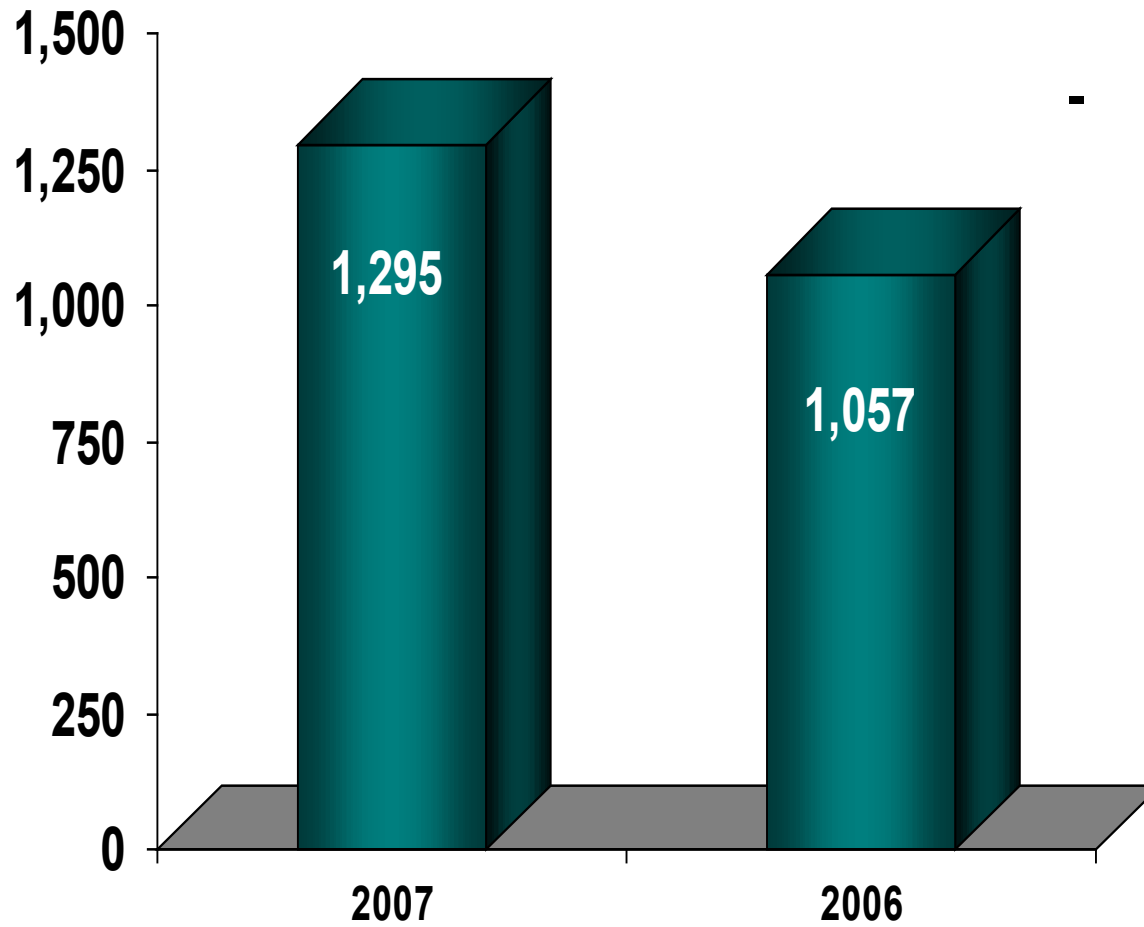


	2007	2006	% change
<b>CASH BALANCE, BEGINNING (Jan. 1)</b>	<b>4,960</b>	<b>13,722</b>	<b>(63.9)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating and other income	1,997	1,580	26.4
Depreciation and amortization	1,038	1,063	(2.4)
Increase (decrease) in other assets and liabilities	(2,290)	(998)	129.4
<b>Net Cash from Operations</b>	<b>745</b>	<b>1,645</b>	<b>(54.7)</b>
Add : Equity issues	-	-	-
Short-term borrowings	2,000	-	-
Long-term borrowings	-	-	-
<b>TOTAL SOURCES OF FUNDS</b>	<b>2,745</b>	<b>1,645</b>	<b>66.8</b>
Less : Short-term debt service	250	-	100.00
Long-term debt service	0.9	285	100.0
Other interest expense	851	1,122	(24.2)
<b>Total Debt Service</b>	<b>1,102</b>	<b>1,408</b>	<b>(21.7)</b>
Unrecoverable purchased power	494	972	(49.1)
Capital expenditures	1,295	1,057	22.5
Preferred equity redemptions	13	13	3.5
Refund to customers	0.4	6	(93.7)
Dividends - common	1,006	-	100.0
<b>TOTAL USES OF FUNDS</b>	<b>3,911</b>	<b>3,455</b>	<b>13.2</b>
<b>NET DECREASE IN CASH</b>	<b>(1,166)</b>	<b>(1,810)</b>	<b>(35.6)</b>
<b>CASH BALANCE, END (March 31)</b>	<b>3,793</b>	<b>11,912</b>	<b>(68.2)</b>

# Capital Expenditures

As of March 31, 2007 and 2006

(in million pesos)



- **P1.30 billion in CAPEX increasing by 22.5% over last year's amount of P1.06 billion.**
- **Areas of concern:**
  - customer growth,
  - correction of overloaded facilities
  - satisfying customer service requirement
  - reducing system loss.

# Debt Profile

As of March 31, 2007 and 2006



(Amounts in billion pesos)

	2007			2006		
	Foreign	Local	Total	Foreign	Local	Total
Long Term	0.3	12.2	12.5	15.8	3.4	19.2
Short Term		2.0	2.0			
<b>Total</b>	<b>0.3</b>	<b>14.2</b>	<b>14.5</b>	<b>15.8</b>	<b>3.4</b>	<b>19.2</b>
	2.2%	97.8%	100.0%	82.2%	17.8%	100.0%

# Regulatory Updates



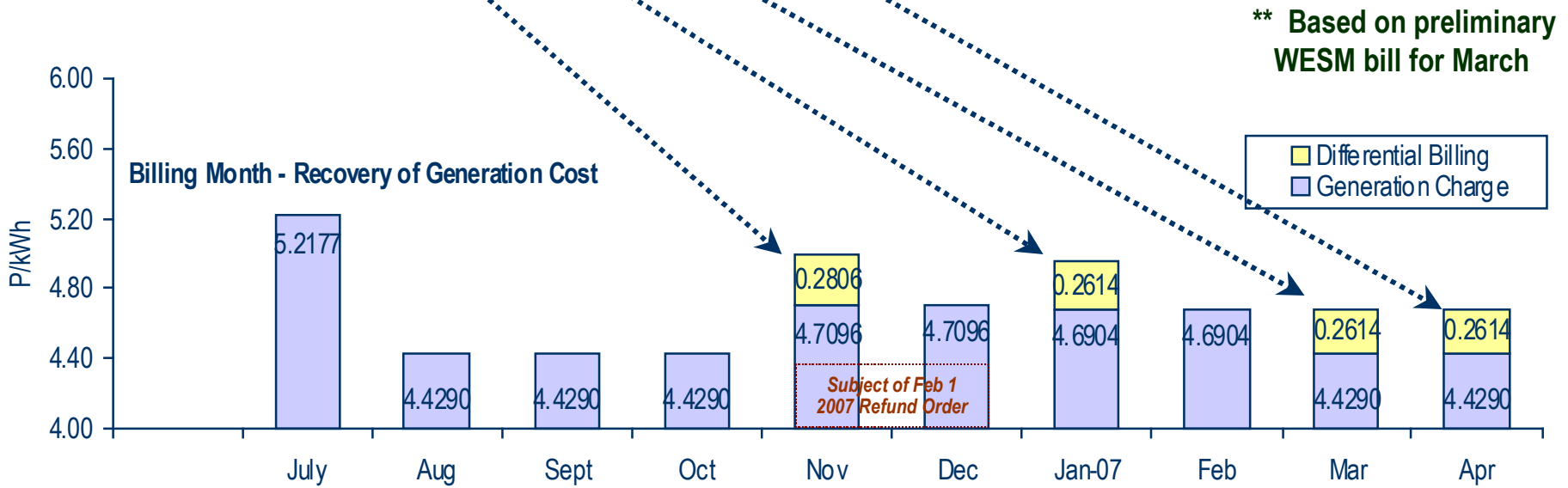
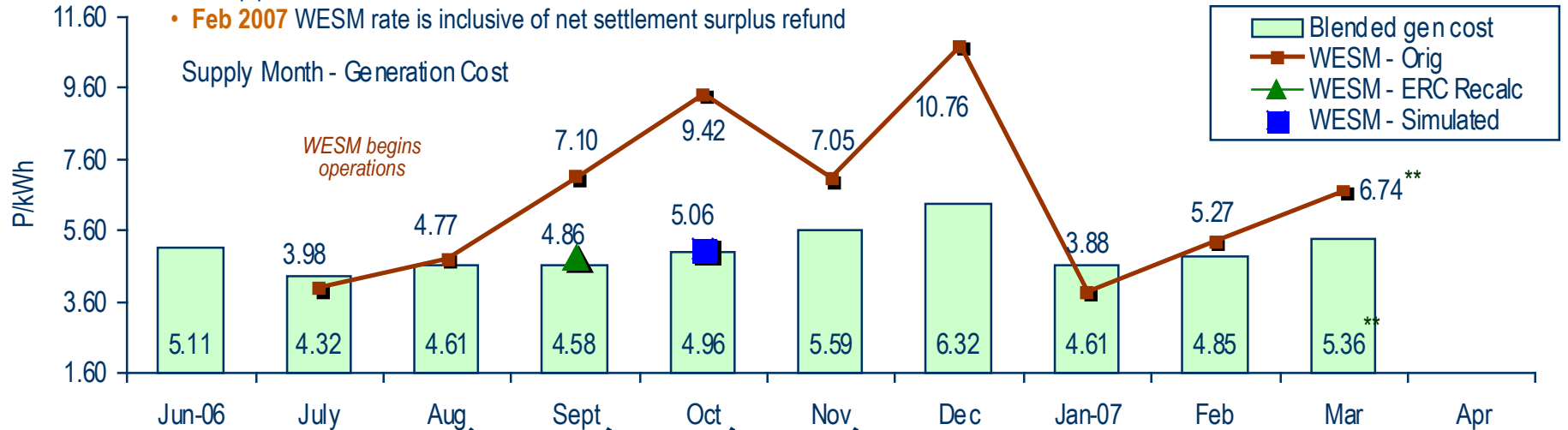
# Outline

---

- Generation Cost Recovery Applications
- ERC's February 1, 2007 Refund Order
- Customer Choice Program
- Meralco's Time of Use Application

# Summary of Generation Charge movements

- For **Sept** gen cost, ERC pegged WESM price at NPC's avg TOU rate (P3.8966/kWh)
- Oct gen cost estimated using simulated/recalculated WESM price based on NPC's hourly TOU rate
- Gas pipeline was shut down from **Nov 22 to Dec 17**
- **Feb 2007** WESM rate is inclusive of net settlement surplus refund



# Implementation of ERC's provisional approvals



Bill Month	Generation Charge (P/kWh)	Diff'l Amount (Other Charges) (P/kWh)	Applicable to consumption for month of ...
August 2006	4.4290	-	-
September	4.4290	-	-
October	4.4290	-	-
November	4.7096	0.2806	Sept. 2006
December	4.7096	-	-
January 2007	4.6904	0.2614	Oct. 2006
February	4.6904	-	-
March	4.4290	0.2614	Nov. 2006
April	4.4290	0.2614	Dec. 2006

- ERC clarified in February 2007 that it is not updating the “Generation Charge” in its provisional approvals
- No increase in charges from March 2007 to April 2007
- Generation charges to end-users are de-linked from generation costs
- Actual month of imposition of the “Differential Amount” has sometimes been delayed because of billing system constraints

# Status of Meralco's generation cost recovery applications

- Following the Supreme Court's August 2006 ruling on Meralco's 2<sup>nd</sup> GRAM filing, Meralco has been mandated to file applications at the ERC before any generation rate adjustment

Supply Month	Date filing accepted by ERC	Proposed Gen Chg (P/kWh)	Provisional Approval (Docket Date)	Provisionally Approved Gen Charge & Diff'l Amount (P/kWh)	Billing Month Effectivity	Hearings	Final Approval
August 2006	Sept. 26, 2006	4.7096	Yes (Nov. 6)	4.4290 & 0.2806	Nov. 2006	Completed	-
September	Oct. 23	5.7334*	Yes (Dec. 28)	4.4290 & 0.2614	Jan. 2007	Ongoing	-
October	Dec. 12	7.1770*	Yes (Mar. 6)	4.4290 & 0.2614	Mar. 2007	Ongoing	-
November	Jan. 2, 2007	5.6831	Yes (Mar. 23)	4.4290 & 0.2614	Apr. 2007	Ongoing	-
December	Feb. 13	6.4221	-	-	-	Ongoing	-
January 2007	Mar. 8	4.6078	-	-	-	-	-
February	Apr. 3	4.8303	-	-	-	-	-

\* Based on original WESM bills, prior to their recalculation after findings of anti-competitive behavior and market power abuse

# What process governs generation charges adjustments?

Period	Mechanism
June 2003 – October 2004	Generation Rate Adjustment Mechanism (GRAM)
November 2004 – August 2006	Guidelines for the Automatic Adjustment of Generation Rates and System Loss Rates by Distribution Utilities, as Amended (AGRA)
September 2006 to present	Filing of application by Meralco and approval by ERC

- Result of GRAM and AGRA is a new “**Generation Charge**” to be used for billing customers
- Beginning the application to recover Sept. 2006 generation costs, Meralco has asked for an updating of the “**Generation Charge**”
  - Meralco’s applications are based on ERC’s AGRA formulas
  - Expectation is that ERC will approve a new “**Generation Charge**”

# ERC's February 1, 2007 refund order



- ERC said that Meralco should not have updated the Generation Charge to the provisionally approved September 2006 level of generation costs, as contained in its November 3, 2006 order
  - Order had allowed Meralco to provisionally adjust the generation & system loss charges to reflect August 2006 generation costs. From the Order:

Billing Month	Generation Charge (₱/kWh)		Difference (₱/kWh)
	<i>As implemented</i>	<i>Per Feb. 1, 2007 Order</i>	
Nov 2006	4.7096	4.4290	0.2806
December	4.7096	4.4290	0.2806

- Meralco was also allowed to collect a differential amount of P0.2806/kWh on customers' September 2006 consumptions
- Currently the subject of a motion for reconsideration

# Addressing the regulatory lag

- Existing recovery mechanisms are not fully compliant with the requirements of Sec. 4e, Rule 3 of EPIRA IRR
  - ERC still drafting the “Rules to Govern the Filing of Consolidated, Monthly/Annual Applications for Adjustments of Rates”
- Meanwhile, DoE has drafted amendments to EPIRA-IRR. Proposed changes will:
  - Define petitions covered by procedural requirements
  - Exclude pass-through cost adjustments from IRR’s coverage

# Customer Choice Program (CCP) rates



- February 28, 2007 – ERC provisionally approved the rates for the Customer Choice Program (CCP)
  - Application was filed by Meralco on December 21, 2006
  - ERC previously approved (Nov. 16, 2006) the MOA between NPC & Meralco to implement the CCP

Rate Component	Existing IS/NIS Rate	Proposed CCP Rate
Generation Rate	Blended per kWh rate	NPC TOU
Transmission Charge	Same	
Distribution System Chg	Same	
Supply Charge	₱655.33 per month	₱704.72 per month
Metering Charge	₱317.74 per month	₱1,938.41 per month

Note: IS – Industrial Service, NIS – Non-Industrial Service

# Meralco's TOU Retail Rate application

- April 16, 2007 – Meralco re-filed its TOU Retail Rate application with the ERC
  - Re-filing of application gives ERC new 75-day period (or until June 30) within which to provisionally approve proposed TOU scheme

April 2005	ERC approves NPC TOU tariffs & directs DU's to propose their own TOU retail rates
Aug. 2005	Meralco complies with directive, files 1 <sup>st</sup> TOU application
June 2006	WESM begin commercial operations
July 2007	Meralco files motion to withdraw first retail TOU application
Oct. 2006	Meralco files 2 <sup>nd</sup> retail TOU application, asks for provisional approval (PA)
Jan. 2007	75-day period for PA expires. Meralco withdraws application
April 3, 2007	Meralco submits 3 <sup>rd</sup> retail TOU application to ERC
April 16, 2007	ERC accepts retail TOU application

# Highlights of Meralco's Time of Use (TOU) proposal



## Meralco TOU Highlights

- **Four pricing blocks** – Peak/Off-peak (Mon-Sat) and Peak/Off-peak (Sun), instead of hourly prices

### Implementation Plan

*Three months from approval*

- **Phase 1A**- Non Industrial & Industrial Service customers with a minimum demand of 750 kW
- **Phase 1B**- Residential customers with a minimum consumption of 2000 kWh

*Six months from Phase 1*

- **Phase 2** - Residential customers with a minimum consumption of 1000 kWh

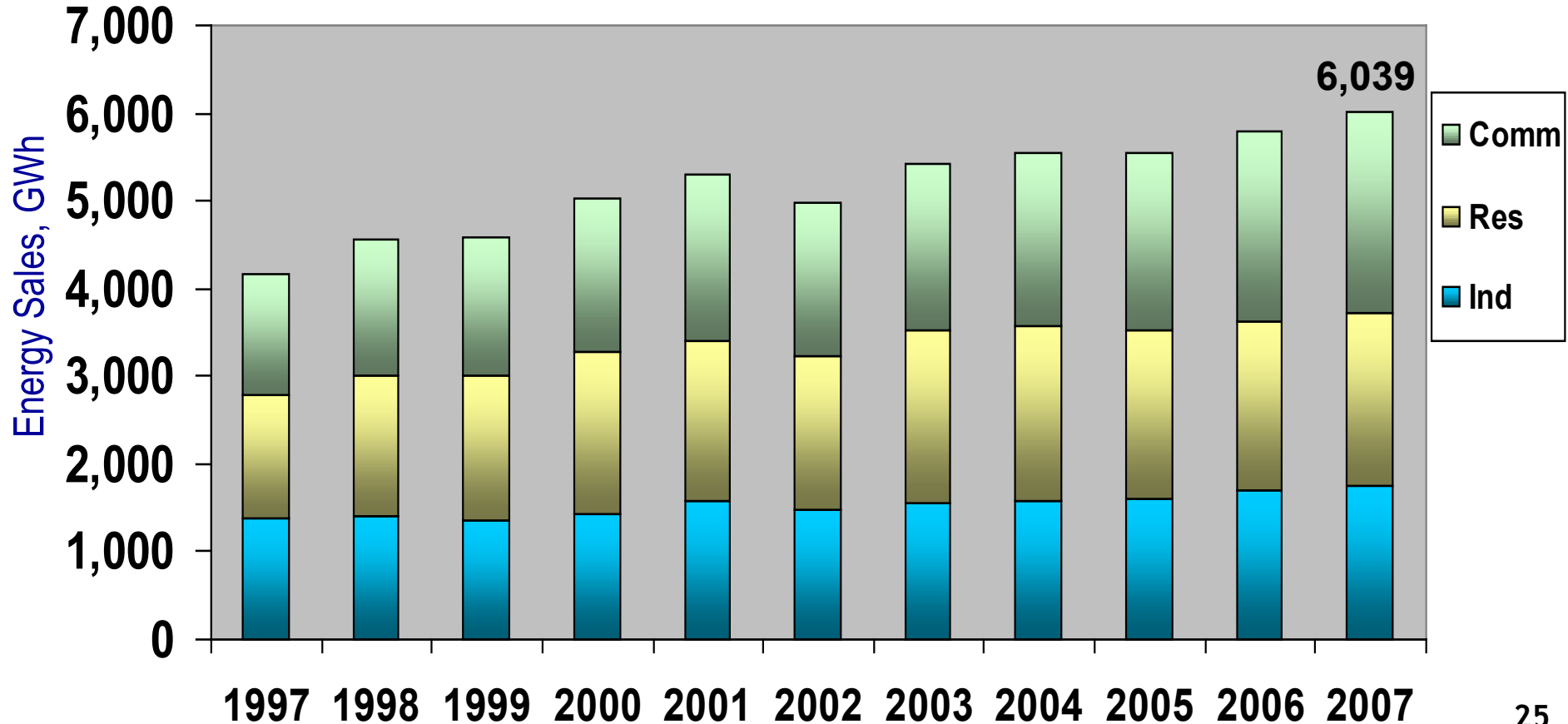
# **Energy Sales, System Loss & System Performance**



# Energy Sales

**Total energy sales in the first quarter of 2007 increased 3.7% to 6,039 GWh over the same period in 2006.**

Segment	% Sales Growth	
	2006	2007
Commercial	6.03%	6.12%
Industrial	5.40%	4.10%
Residential	1.32%	0.72%
<b>TOTAL</b>	<b>4.22%</b>	<b>3.69%</b>

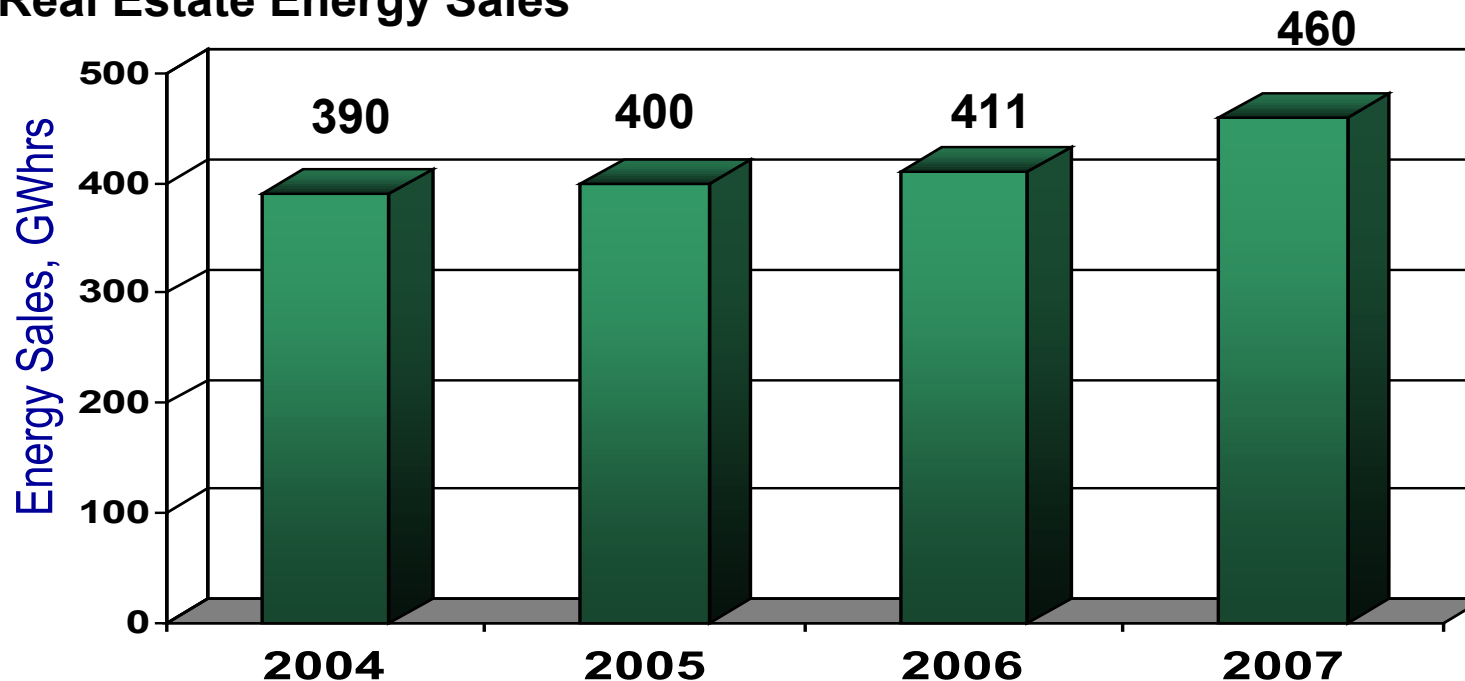


# Commercial Sales

Energy sales from the Commercial Segment increased by 6.1% led by the 12.1% growth in consumption of the Real Estate sub-segment which houses Business Process Outsourcing or BPOs, including call centers.

These BPOs, along with the upswing in the property market, have steadily propelled the growth in the Real Estate sub-segment, comprising 19% of total Commercial sales.

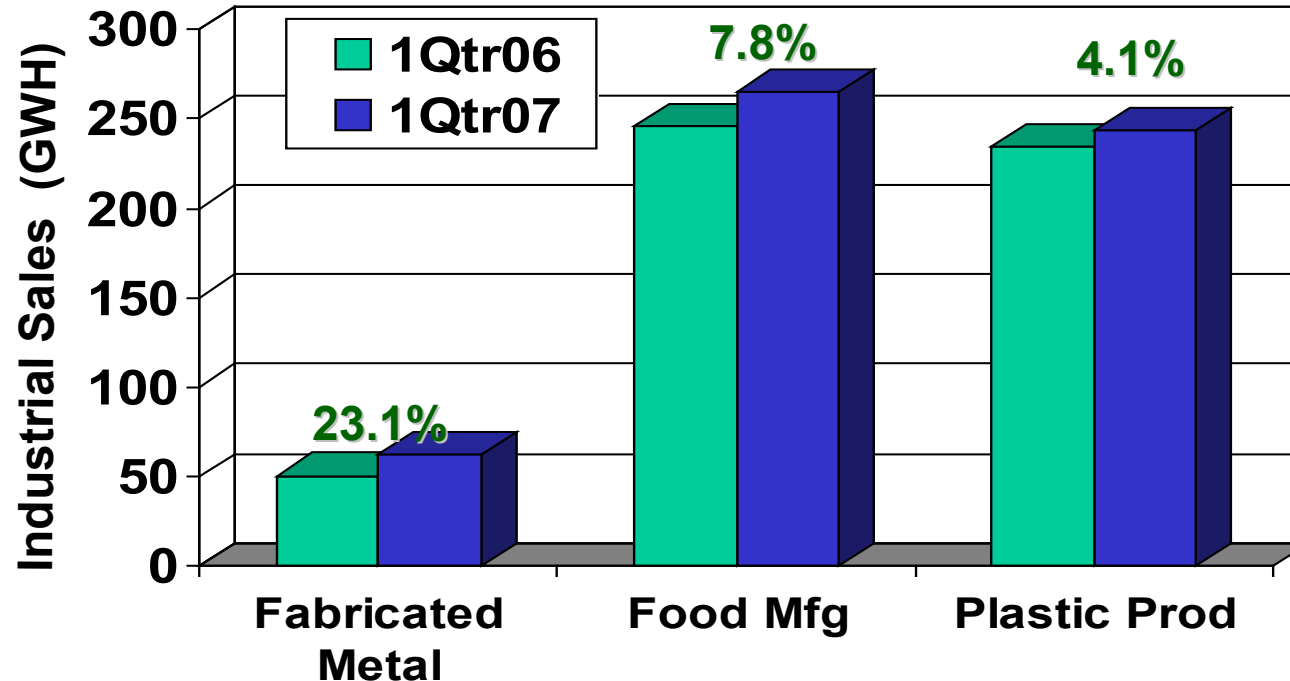
## 1Qtr Real Estate Energy Sales



# Industrial Sales

Energy sales from the Industrial Segment posted a 4.1% growth mainly driven by the increased consumption from the Fabricated Metals, Food Manufacturing and Plastic Products Manufacturing sub-segments, which increased by 23.1%, 7.8%, and 4.1%, respectively.

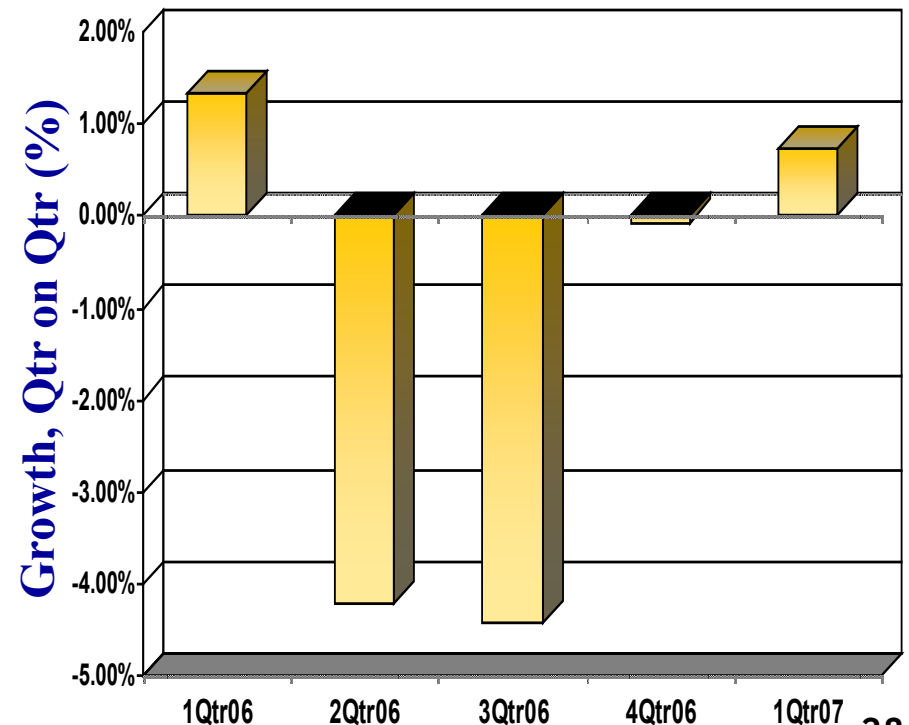
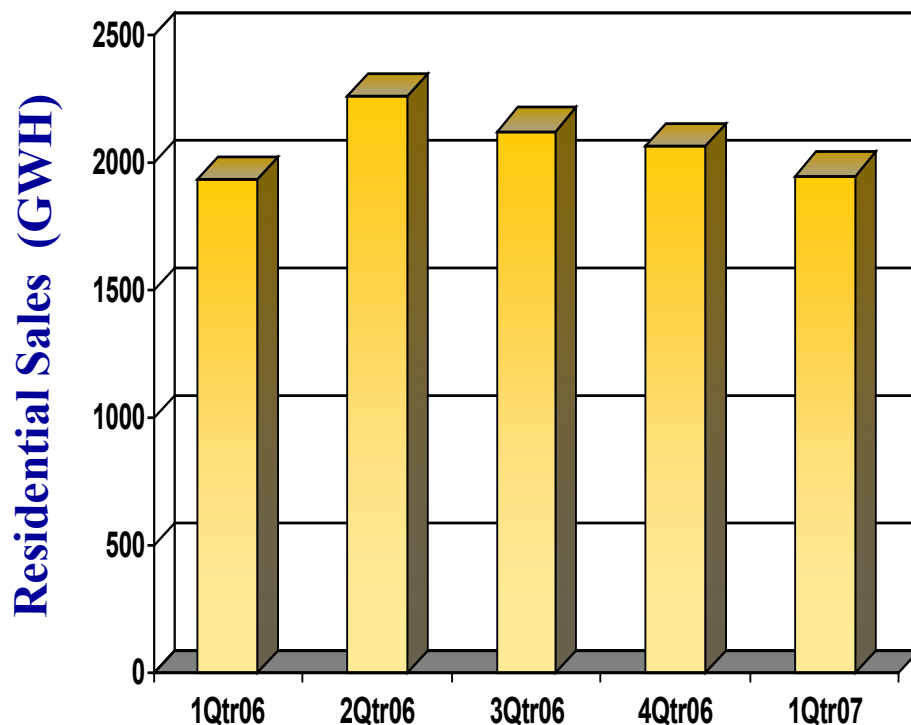
Combined sales of these industries accounted for 32% of total industrial energy sales for the 1<sup>st</sup> quarter of 2007.



# Residential Sales

First quarter 2007 residential sales grew by 0.72% over a year ago, ending its slump in the past three consecutive quarters of 2006 (2<sup>nd</sup>-4<sup>th</sup> Qtr 2006).

Residential consumption is expected to pick up with the onset of the summer season.



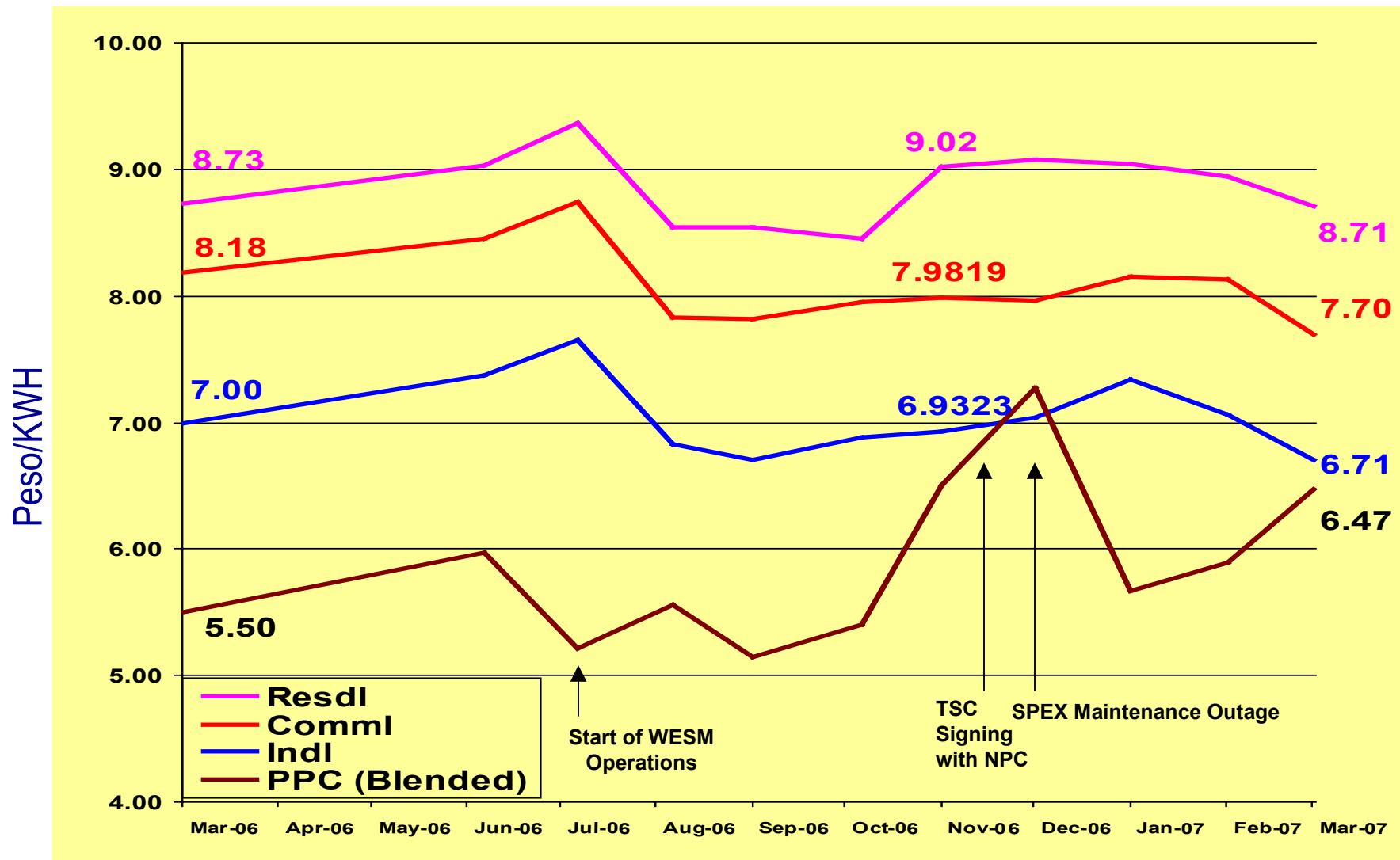
# MERALCO AVE. RATE BREAKDOWN (AS OF MARCH 2007, P/KWH)



The overall average rate in March 2007 declined 3.5% to P7.75/KWH compared to its level a year ago. This reduction was largely due to the decrease in generation charges which are not reflective of actual costs.

	<i>Average March 2006</i>	<i>Average March 2007</i>	<i>% to total bill</i>	<i>Average Residential</i>	<i>Average Commercial</i>	<i>Average Industrial</i>
Generation	4.91	<b>4.58</b>	<b>59%</b>	4.62	4.56	4.56
Transmission	0.74	<b>0.92</b>	<b>12%</b>	0.91	1.04	0.78
<b>Meralco Charges</b>	1.07	<b>0.96</b>	<b>12%</b>	1.82	0.70	0.31
System Loss	0.63	<b>0.61</b>	<b>8%</b>	0.75	0.60	0.47
Subsidies	0.02	<b>-0.01</b>	<b>9%</b>	<b>-0.23</b>	0.09	0.09
Taxes/Univrsal Chrge	0.67	<b>0.69</b>				
<b>Total</b>	8.03	<b>7.75</b>	<b>100%</b>	8.71	7.70	6.71

# AVERAGE RATES FOR MARCH 2007



• **September and October 2006 PPC** were based on preliminary recomputation; adjustments in WESM billings are still being finalized since PEMC was ordered by ERC to recompute based on NPC-TOU rates.

# MERALCO PURCHASED POWER COST (PPC), P/KWH



IPP PPC continued to be lower than that of WESM and NPC due to high dispatch and lower transmission costs.

## P/kWH

Period	WESM			NPC			QPPL			Sta. Rita			SanLo		
	Gen	Trans	PPC	Gen	Trans	PPC	Gen	Trans	PPC	Gen	Trans	PPC	Gen	Trans	PPC
Jan 2007	3.88	1.72	5.60	5.75	1.42	7.17	4.30	0.72	5.02	4.50	0.64	5.13	4.35	0.54	4.89
Feb 2007	5.27	1.68	6.95	5.96	1.52	7.48	3.91	0.66	4.56	4.34	0.65	4.99	4.17	0.55	4.73
Mar 2007*	6.81	1.47	8.28	5.98	1.43	7.41	4.10	0.69	4.79	4.79	0.82	5.61	4.31	0.59	4.90
1st Qtr 2007	5.34	1.63	6.96	5.91	1.45	7.35	4.09	0.69	4.78	4.52	0.69	5.22	4.28	0.56	4.84

## GWH & % Share

Period	WESM		NPC		QPPL		Sta. Rita		SanLo	
	GWH	% share	GWH	% share	GWH	% share	GWH	% share	GWH	% share
Jan 2007	419	19.54%	527	24.56%	265	12.36%	601	28.01%	332	15.50%
Feb 2007	352	15.73%	621	27.79%	303	13.54%	616	27.56%	343	15.35%
Mar 2007*	415	19.16%	655	30.26%	290	13.40%	483	22.30%	322	14.86
1st Qtr 2007	1,185	18.11%	1,803	27.55%	858	13.11%	1,699	25.97%	997	15.24%

### Notes:

WESM and NPC costs include GRAM & ICERA

2) WESM Prices for March 2007 are based on preliminary bills

# IPP Dispatch Levels (1QTR06 vs 1QTR07)



Higher IPP dispatch in the first quarter compared to last year

## 1QTR06

Month	QPPL	SAN LORENZO	STA RITA	IPP Ave per month
January-06	71%	68%	66%	67%
February-06	73%	73%	74%	74%
March-06	78%	79%	73%	76%
<b>Ave (1QTR06)</b>	<b>71%</b>	<b>72%</b>	<b>70%</b>	<b>71%</b>

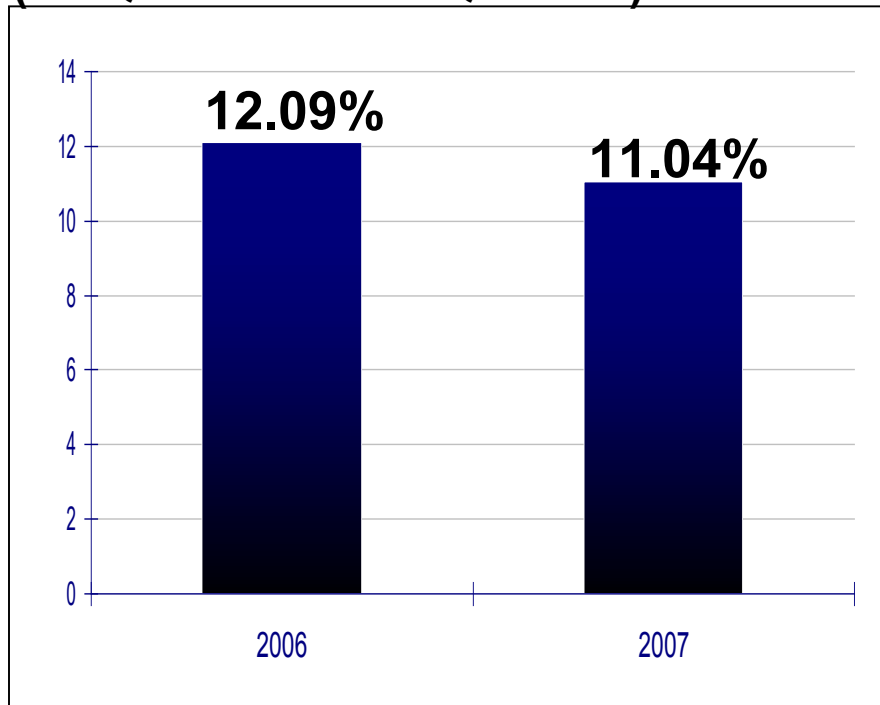
## 1QTR07

Month	QPPL	SAN LORENZO	STA RITA	IPP Ave per month
January-07	76%	89%	80%	81%
February-07	87%	91%	82%	86%
March-07	92%	95%	71%	77%
<b>Quarter Average</b>	<b>85%</b>	<b>92%</b>	<b>78%</b>	<b>83%</b>
<b>Ave (1QTR07)</b>	<b>85%</b>	<b>92%</b>	<b>78%</b>	<b>83%</b>

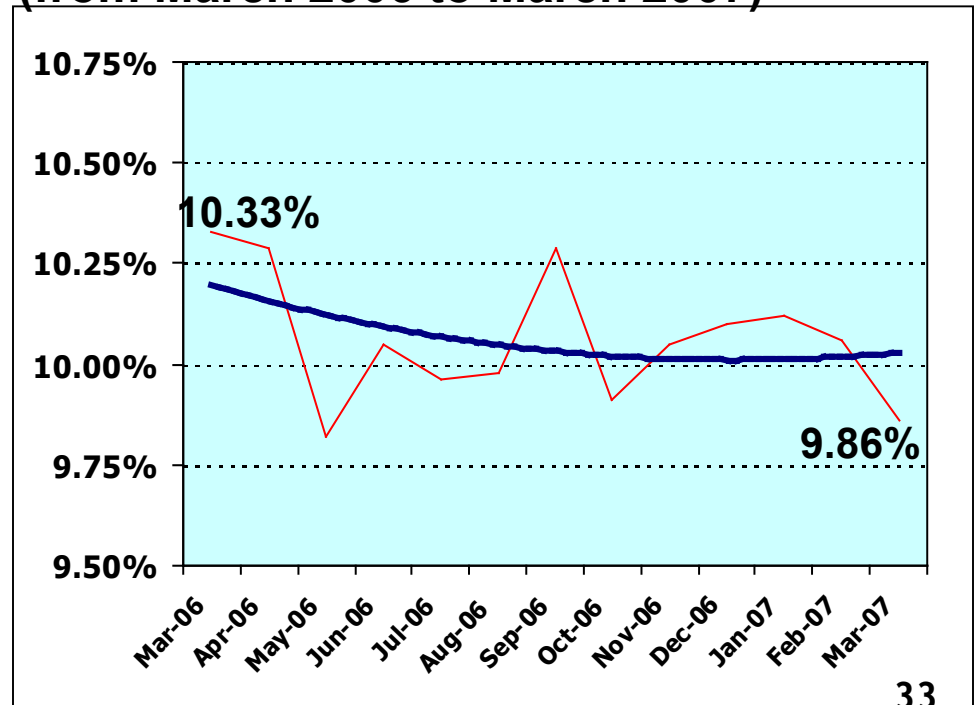
# System Loss (Qtr-on-Qtr & 12MMA)

- 1<sup>st</sup> Qtr 2007 System Loss reduced to 11.04% from 12.09% in the same period of 2006.
- 12-Monthly Moving Average (MMA) System Loss performance as of March 2007 continued to improve.

**Quarterly System Loss  
(1<sup>st</sup> Qtr 2006 vs 1<sup>st</sup> Qtr 2007)**



**12-MMA System Loss  
(from March 2006 to March 2007)**



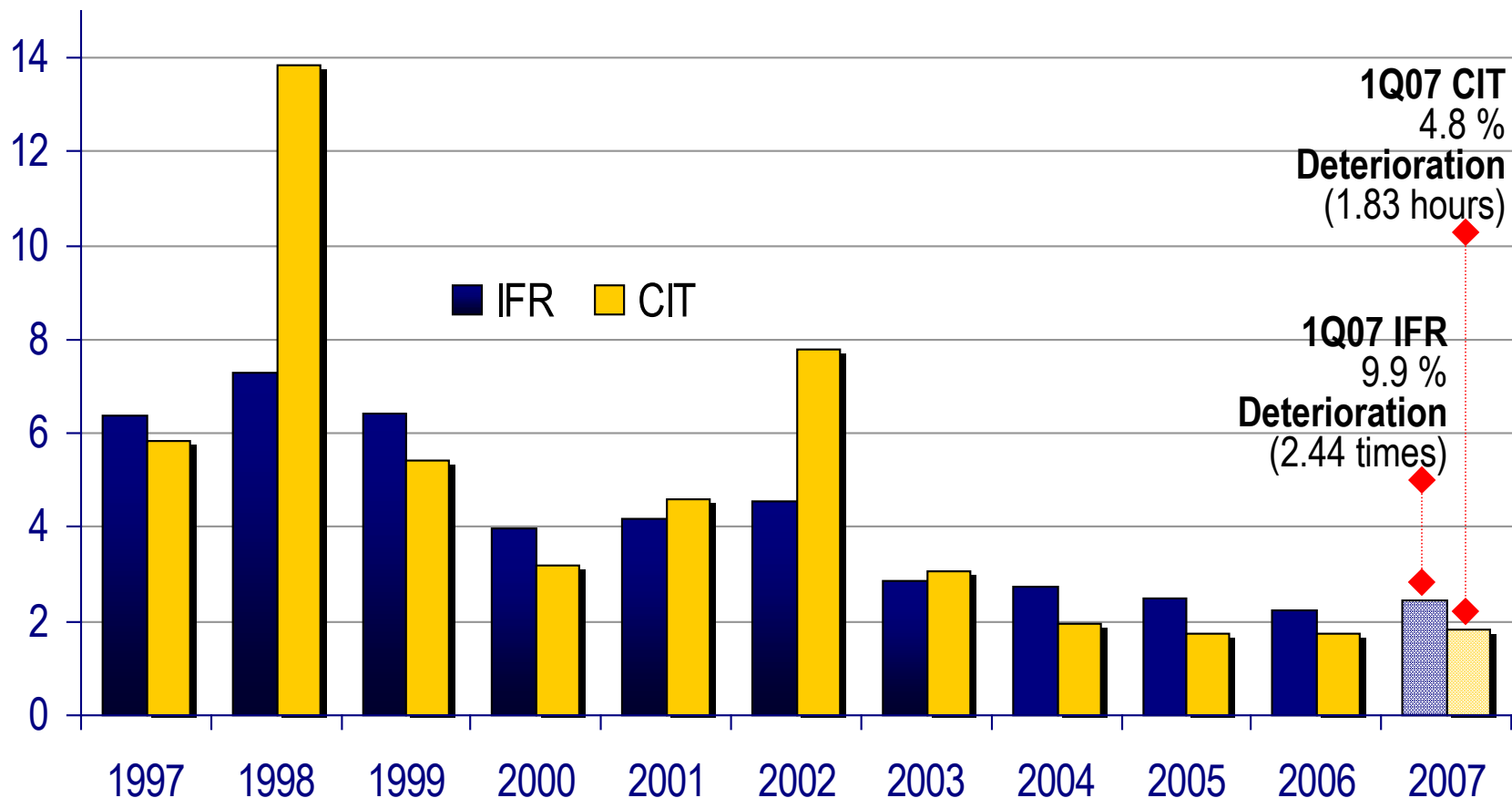
# System Loss

---

- Apprehension of a record 10,656 illegal connection users & meter tamperers in 1Qtr 2007
  - An 8% increase over 1Qtr 2006
- Increased consumption of bulk energy users in 1Qtr 2007
  - From 29.37% in 2006 to 30.39% this year

# 1Qtr System Performance

System reliability (IFR) & system availability (CIT) depreciated slightly to 2.44 times & 1.83 hours, respectively. Temporary de-energization of facilities were undertaken to make way for intensified line & substation maintenance activities.



NOTE: Service Interruption includes Forced, Pre-arranged, & Genco/Transco-caused outages

# 2007 Operating Results

For the quarter ended March 31, 2007

## Investors' Briefing & Teleconference



**End of presentation**

**Thank you !**

