

ANNUAL REPORT 2012



**MWSS
REGULATORY OFFICE**

2012 REPORT

The Regulatory Office finds 2012 very challenging in the sense that it is a Rate Rebasing year, which generally happens once every five years. Despite being a very crucial year, the terms of office of the Chief Regulator, Technical Regulator and Financial Regulator also expired. In addition, the term of office of the Customer Service Regulator already commenced in August 1, 2010 and is set to expire on July 31, 2015, but none has been appointed to the said post. Thus there is a strong possibility that four new Regulators will assume only on the later part of 2012.

True enough, but consistent with the MWSS Water Security Legacy Plan where one of its pillar is Organizational Excellence, the MWSS Board of Trustees in a series of deliberate screening and selection process, has made these significant appointments:

1. Samuel B. Cruz – Financial Regulator, by virtue of Board Resolution No. 2012-142, and assumed office November 5, 2012
2. Gerardo A. Sullano – Technical Regulator, by virtue of Board Resolution No. 2012-151, and assumed office November 15, 2012
3. Vincent Pepito F. Yambao, Jr. – Customer Service Regulator, by virtue of Board Resolution No. 2012-150, and assumed office December 3, 2012

Unfortunately, despite publication in a newspaper of general circulation and notwithstanding the extension given to accommodate applicants, none has expressed interest to apply for the position of Chief Regulator. As such last November 12, 2012, the MWSS Board thru Resolution No. 2012-155 designated one of its Trustees, Emmanuel L Caparas, as Acting Chief Regulator.

DA Estrella Decena-Zaldivar, the re-appointed Regulator for Administration and Legal Affairs whose term of office expires July 31, 2015, was the Acting Chief Regulator prior to the assumption of ACR Caparas. This makes DA Zaldivar as the most senior among the 5-person collegial Regulatory Office.

RATE REBASING

Pursuant to the Concession Agreement (CA), a Rate Rebasing (RR) is mandatory every five (5) years. RR is a process that determines the level of rates for water and sewerage services that permits the Concessionaires to recover over the life of the concession (until 2037) its operating, capital maintenance and investment expenditures. RR is also a way to provide appropriate incentives to benefit both the Customers and the Concessionaires.

The RR looks into the historical (past 5 years) performance of the Concessionaires against established targets or commitments. It then updates a reasonable projection of all factors for the remaining concession life with a proposed Business Plan detailing the next five years. The Business Plan needs the approval of the MWSS being the principal and eventual owner of all the facilities by the end of the concession. As required in the CA,

both Concessionaires submitted their respective Business Plans for 2013-2037 within the deadline of March 31, 2012.

Initial review of Maynilad's Business Plan necessitated a re-submission of an updated "September Business Plan".

Normally, the determined Rebased Rate is for implementation January 1, of the following year (2013). However, the engagement of independent experts to perform the very complex RR task has been delayed due to prospective experts' failure to comply with all the stringent requirements of RA 9184, or the Government Procurement Act.

With the RR consultants likely to be on-board this December 2012, an indicative tariff is expected by May 15, 2012. Thereafter, RO intends to conduct another series of PubCons from May 16 – June 16, 2013 to present to the Customers the Concessionaires' Business Plan and get a feedback regarding the indicative Rebased Rate which hopefully is an acceptable rate and may be implemented starting July 1, 2013.

PUBLIC CONSULTATIONS

It has been an established MWSS RO practice to conduct aggressive public consultations to commence any RR exercise. Even prior to submission of the Concessionaires of their respective RR applications last March 2012, the MWSS RO already had meetings and dialogues with various consumer groups and have conducted 28 Public Consultations (PubCons) throughout the MWSS service area.

The PubCons are opportunities for the MWSS RO to promote its mandate, accomplishments and programs. More importantly, it is a feedback mechanism on the performance of the Concessionaires. This also gives the MWSS RO guidance on what rules and guidelines to be adopted or matters that require inclusion in the final Business Plan.

Refer to **Annex A** for the schedule of Pre-Rate Rebasing PubCons conducted.

RATE REVIEW

The CA (Section 9.2) provides that the standard rates for water and sewerage charges shall be adjusted each year effective January 1 of each Charging Year. Among the Rate Adjustment Limit factors allowed to be applied was the annual rate of inflation or the 2011 Consumer Price Index as published by the National Statistic Office (NSO) which was 4.6% and, as previously agreed in the previous Rate Rebasing exercises (2007 & 2008) for MWCI and MWSI, instead of a one-time rate adjustment in 2008 and 2009, respectively, the customer-proposed gradual increases was adopted to cushion the impact of the rebased rates. As such, the last tranche of the staggered rates was part of the rate adjustment for January 2012.

As a result of the Asian financial crisis in the late 1990s, the Concession Agreement (CA) was amended (Amendment No. 1) in October 2001, to allow the Concessionaires to recover past foreign exchange losses as well as present and future losses through quarterly Foreign Currency Differential Adjustments (FCDA). For 2012, the MWSS, on the basis of the recommendation of the Regulatory Office, has approved the following FCDAs:

Concessionaire	2012 Base Rate	2012 FCDA Percentage (%) Applied on the Base Rate			
		1 st Q	2 nd Q	3 rd Q	4 th Q
MWSI	32.92	0.28%	0.28%	0.02%	-0.19%
MWCI	27.44	1.71%	1.71%	3.19%	3.49%

Later part of the year, the Standard Rates for both Concessionaires effective January 1, 2013 were determined taking into consideration the NSO-published “C” (Consumer Price Index) and the First Quarter FCDA and tabulated as follows:

Concessionaire	2012	C factor		2013	1 st Q 2013 FCDA	
	Basic Charge	%	Php	Basic Charge	%	Php
MWSI	32.92	3.2	1.05	33.97	1.23	0.34
MWCI	27.44		0.85	28.29	(0.51)	(0.17)

Refer to **Annex B** for the January 1, 2013 Schedule of Rates for Manila Water and **Annex C** for the January 1, 2013 Schedule of Rates for Maynilad. **Annex D**, is the impact across various customer classifications and consumptions for Manila Water and **Annex E** is for Maynilad.

KPI-BEMs MONITORING

The Key Performance Indicators (KPI) and Business Efficiency Measures (BEMs) were developed after the first Rate Rebasing in 2002. Other than the general Service Obligations enumerated in the CA, a more specific and measureable parameters on gauging Concessionaires’ performance were enumerated and now serves as the Concessionaires Report Card.

The KPIs include the following: number of new water and sewerage service connections, continuity of supply, water pressure, water quality at the plant and within the distribution areas, number of septic tanks desludged, wastewater effluent standards, customer requests and complaints handling efficiency and monitoring incidences of disruptive mainline bursts.

BEMs include matters that impact on the financial health of the Concessionaires, among which are billed volume, collection efficiency, operational cost like labor and power, capital expenditures physical and financial status, concession fees payments and non-revenue water.

It bears to stress that the Concessionaires' reduction of NRW was mainly due to the RO's imposition of the KPIs/BEMs as NRW is not considered a service obligation target in the CA. Likewise, the Concessionaires' operational expenditures (OPEX) relative to the delivery of water, wastewater and sanitation services became more efficient because of the RO's monitoring through the KPIs/BEMs.

The 2011 KPI-BEMs which was evaluated in early 2012 is presented in **Annex F** for Manila Water and **Annex G** for Maynilad. While MWSS RO-evaluation of the KPI-BEMs ending the first half of 2012 is presented in **Annex H** for Manila Water and **Annex I** for Maynilad.

OPERATIONS MONITORING

The CAPEX Monitoring Manual (CMM) developed in 2009 is continuously being monitored. The CMM is a regulatory tool to monitor, and raise alarm if necessary, on Concessionaires' non-implementation, delay or significant variations on the budgeted amounts as per approved Business Plan.

As of EO September 2012, MWSI's total actual disbursement is PhP 5,335 Million while the approved disbursement for CY 2012 is PhP 8,997 Million inflated to 2012 prices. The total actual disbursement is only around 59% of the approved budget. MWCI on the other hand incurred a total actual disbursement of PhP 4,809 Million as of EO September 2012 while the approved disbursement for CY 2012 is PhP 9,829 Million. The actual total disbursement is only around 49% of the approved disbursement for CY 2012. Projecting a significant shortfall of the committed capital expenditure as per approved Business Plan, the MWSS RO has officially advised MWCI to submit a catch-up plan for 2012.

WATER AND WASTEWATER QUALITY MONITORING

The main task of the Regulatory Office is to check that the Concessionaires supply water that is safe to drink and meets the standards set in the Philippine National Standards for Drinking Water (PNSDW). The RO carries out technical audits of each Concessionaire. These have 2 main parts: 1) an annual assessment of the quality of drinking water supplied by the Concessionaires and 2) inspections of the laboratory of each Concessionaire. The job holds exactly the same with regards to wastewater quality.

The assessment of water quality as well as wastewater quality is based on information received regularly from the Concessionaires. RO's validation of the results against the standards ensures the accuracy of the reports submitted by the Concessionaires. We also carry out inspections to be sure that the results are reliable and give a true picture of the quality of the water supplied.

Inspections cover many things:

- Sampling procedures are satisfactory
- Samples are tested by trained staff using accurate methods
- The right number of tests are carried out
- Correct results are entered in the record
- Appropriate water treatment are used
- Treatment processes and the water distribution system are operated and maintained satisfactorily
- Consumer complaints are handled properly

In addition, the MWSS RO has been very active in the field by conducting random sampling. With regards to water supply, we collect, daily and at random, water samples at customers' taps and treated drinking water at the outlet of each of the forty (40) water treatment works operated by the Concessionaires. A total of 5,061 tests were conducted demonstrating compliance with PNSDW.

The minimum standard of 95% passing for the coliform bacteria in the distribution system had always been surpassed in each month of 2012. Whenever bacteria may have infringed into the drinking water supplies, the concerned Concessionaire in coordination with the MWSS RO together with the Department of Health-chaired Metro Manila Drinking Water Quality Monitoring Committee, investigate immediately affected consumers. The investigating team will advise the consumer what to do. Any remaining failures will be addressed by the MWSS RO requiring concerned Concessionaire to urgently carry out further improvements and monitors the same.

The Supreme Court upheld earlier decisions by the Regional Trial Court in Imus, Cavite and the Court of Appeals favoring the Concerned Residents of Manila Bay who filed a civil suit against government agencies for its failure to act against polluters that led to the current sorry state of the Manila Bay. Several government agencies, MWSS among them, were thus tasked by the Supreme Court to work in unison to transform the quality of Manila bay's water fit for fishing and sports activities. Specifically for MWSS, the High Court gave instructions to provide, install, operate and maintain the necessary adequate wastewater treatment facilities in Metro Manila, Rizal and Cavite at the earliest possible time as untreated wastewater contribute heavily in the pollution of Manila Bay.

In view of the such Supreme Court ruling, the wastewater plans of the two (2) Concessionaires, has adopted a strategy termed Combined Water and Drainage System where the existing municipal drainage network shall be used as the wastewater conveyance facility instead of laying new sewer lines so as not to inconvenience the public considering the narrow streets and dense population that characterize Metro Manila. A prototype of this kind is already under construction in Barangay Olandez, Marikina City which started its operation in 2009. Other sites already identified are in Pasig and Makati city, all within the jurisdiction of the Concessionaires.

On top of the combined drainage and sewer system is the continued improvement of the MWSS sanitation program which entails emptying of septic tanks. Very recently, the FTI and San Mateo Septage Treatment Plants (STP), both operated by MWCI, were inaugurated which now cater to septage collected in East Zone by a fleet of desludging trucks.

MWSS RO monitors monthly, and at random, each sewage treatment plant operated by the Concessionaires in their respective concession area. Diligently delivering the said job, a total of 6,084 test data were collected from wastewater samples collected from 39 STPs by the MWSS RO. The MWSS RO and MWCI set compliance with the agreed standards at 95%, and this had been equally set with the coliform standard for drinking water. On the other hand, evaluation of Maynilad's performance on wastewater quality is determined based on the original standard set in the original KPI-BEMs document prepared by Thames Water during the 2002 Rate Rebasing for Manila Water. To quote the requirement of said KPI-BEMs, Maynilad's service performance is based on the number of regulatory samples passing on the complete package of parameters, expressed as percentage of the total number of samples, where BOD, COD, total coliforms, Total suspended solids and oil & grease complete the said package parameters.

MONITORING OF CUSTOMER STANDARDS

The status of/compliance with various Implementing Rules and Regulations relating to customer issues are continuously being monitored. Coordination meetings, discussions and negotiations with the Concessionaires including the participation of the MWSS Corporate Office (MWSS CO) were conducted to formulate policies acceptable to all parties. The aim is to develop common policies and standards applicable to both concessionaires on customer related issues and to update existing policies inherited prior to turnover taking into consideration the concerns of consumers.

As a result of the information gathered during the PubCons conducted this year, the MWSS RO has initiated discussions on an additional number of IRRs with consumer groups and the Concessionaires.

The existing and proposed IRRs are presented in **Annex J**.

FINANCIAL OPERATIONS

For CY 2012, overall operations of the Regulatory Office resulted in an estimated net income of P109.76 Million, an increase of P22.58 M or 26.00 percent, compared to the P87.18 Million reported in 2011.

Total expenditures for the year which is estimated to close at P113.08 Million is lower by 10.25% percent or P12.92M, compared to the 2011 totals of P126M. Personal services is estimated at P78.12M is 69.08 percent; maintenance and operating expenses at P27.24M has a 24.08 percent share; and, financial expenses and other expenses of P7.73M is 6.83 percent of total expenses. **Annex K** are the Unaudited Financial Statements as of September 2012 and that for the Projected Yearend 2012.