



Republika ng Pilipinas
PANGASIWAAN NG TUBIG AT ALKANTARILYA SA METRO MANILA
Metropolitan Waterworks and Sewerage System
Katipunan Road, Balara, Quezon City 1105, Philippines

**IN RE: RATE REBASING DETERMINATION
FOR MAYNILAD WATER SERVICES, INC.
FOR CHARGING YEARS 2013 TO 2017**

BOARD RESOLUTION NO. 2013-100-RO

WHEREAS, under Section 3 of Republic Act No. 6234, otherwise known as the Metropolitan Waterworks and Sewerage System (MWSS) Charter, the MWSS Board of Trustees has the *sole power* to "fix periodically water rates and sewerage service fees as the System may deem just and equitable."

WHEREAS, under the respective Concession Agreements (CA) with the Concessionaires, the MWSS Board of Trustees, upon the recommendation by the Regulatory Office, retains the power to approve any and all proposed rate adjustments;

WHEREAS, the rate-fixing power of the MWSS Board of Trustees carries with it the authority to approve or disapprove the individual components of the proposed rates;

WHEREAS, the CA provides the following guidelines in determining the adjustments in the Standard Rates through the Rate Rebasing process:

"9.4 General Rates Setting Policy/Rate Rebasing Determination

The maximum rates chargeable by the Concessionaire for water and sewerage services hereunder applicable to the period through the Second Rate Rebasing date (subject to interim adjustments as described in this Article 9) are set out in Schedule 5 to this Agreement. It is the intention of the parties that, from and after the Second Rate Rebasing Date, the rates for water sewerage services provided by the Concessionaire shall be set at a level that will permit the Concessionaire to recover over the 25-year term of the Concession (net of any grants from third parties and any possible Expiration Payment) operating, capital maintenance and investment expenditures efficiently and prudently incurred, Philippine business taxes and payment corresponding to debt service on the MWSS Loans and Concessionaire Loans incurred to finance such expenditures, and to earn a rate of return (referred to herein as the "Appropriate Discount Rate") on these expenditures for the remaining term of the Concession in line with the rates of return being allowed from time to time to operators of long-term infrastructure concession arrangements in other countries having a credit standing similar to that of the Philippines. The parties further agree that the maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second Rate Rebasing Date; provided that the Regulatory Office may exercise its discretion to make a general adjustment of such rates on the First Rate Rebasing Date, but if it does not do so, the Regulatory Office shall implement the assumptions set out in paragraph 2 of Exhibit E on the fifth anniversary of the Commencement Date. It is understood that the determination of the appropriate rate of return will be made separately at the time of each generalized rate rebasing.

[Handwritten signature]

[Handwritten signature]

It is also the intention of the parties that rates be set in such a way as to provide appropriate efficiency incentives to the Concessionaire, with a view toward benefiting both the Customers and the Concessionaires.

The Regulatory Office shall determine the Rebasing Adjustment to be used for the purpose of calculating the Rates Limit for each of the five Charging Years of each Rebasing Period, in accordance with the provisions set forth below."

xxx

9.4.2 Rebasing Adjustment

For the purpose of determining the Rates Adjustment Limit to apply to Standard rates to come into effect on a Rate Rebasing Date commencing with the second Rate Rebasing Date, and the Rate Adjustment Limits for the following four Charging Years, the Regulatory Office shall, by taking into account all information available at the time, and by making reasonable projections of all factors relevant to the future Cash Flows of the Concessionaire, determine:

- (i) The Net Present Value, which may either be positive or negative, of the Opening Cash Position, as at June 30 following that Rate Rebasing Date;
- (ii) The amount, either positive or negative, which if made to the Rate Adjustment Limit for the following Charging Year would cause the Net Present Value of the Future Cash Flows, as at June 30 following that Rate Rebasing Date, to be equal but opposite in sign to the Net Present Value of the Opening Cash Position as determined in (i) above (the "Rebasing Adjustment").

WHEREAS, on 30 March 2012, **Maynilad** petitioned for an **upward adjustment of 24.69%** of its 2012 average basic water charge, beginning 1 January 2013, or an equivalent increase of **Php 7.41 per cu.m.** This proposal was subsequently revised on 14 September 2012 to an upward adjustment of **34.06% (Php 10.31 per cu.m.)**, and finally on 23 May 2013 to **28.35% (Php 8.58 per cu.m.)**, after **Maynilad** changed its submitted Technical and Financial assumptions;

WHEREAS, pending determination of adjustments in the rate, **Maynilad** sought an interim rate increase in its letter dated 26 November 2012 of at least 20% of its anticipated "R" adjustment – or the equivalent of Php 2.06 per cubic meter;

WHEREAS, upon the recommendation of the Regulatory Office in its Resolution No. 12-010-CA dated 3 December 2012, the MWSS Board of Trustees declined **Maynilad's** requested interim rate adjustment of 20% of its anticipated "R," but granted CPI adjustment of 3.2% beginning 1 January 2013;

WHEREAS, the Regulatory Office, with the assistance of its financial, legal and technical consultants, evaluated **Maynilad's** proposals and conducted the Rate Rebasing process, pursuant to its mandate under the CA and mindful of its duty to determine reasonable tariff pursuant to Article 9.4 of the CA;

WHEREAS, for this Rate Rebasing exercise, the Regulatory Office revisited and resolved various lingering issues and proposed the following:

1. In its Resolution No. 13-005-CA dated 7 June 2013, the Regulatory Office recommended the non-recognition of Corporate Income Tax as part of recoverable expense and the application of 0% Tax in the computation of the Appropriate Discount Rate (ADR);

2. In its Resolution No. 13-008-CA dated 6 September 2013, the Regulatory Office recommended the discontinuance of the charging of the Currency Exchange Rate Adjustment (CERA); and
3. In its Resolution No. 13-003-A-CA dated 7 August 2013, the Regulatory Office adopted a new set of Implementing Rules and Regulations (IRR) pertaining to the following matters:
 - a. 2013 Revised IRR on the Disconnection and Reconnection of Water Service Connection;
 - b. IRR on Rate Classification and Billing Scheme of Small-Scale (Home-Based Business);
 - c. IRR on Rate Classification of Places of Worship;
 - d. 2013 Revised IRR on the Billing Scheme and Rate Classification for High Rise and Other Multiple Dwellings;
 - e. IRR on the Treatment and Rate Reclassification of Domestic Customers Inside Military and Police Installations;
 - f. IRR on Additional Meter and Transfer of Connection Tapping Point; and
 - g. IRR on the Rate Reclassification of Certain Government Institutions.

WHEREAS, as part of the Rate Rebasing process, the Regulatory Office has, from time-to-time, updated and discussed with the MWSS Board of Trustees pertinent issues concerning its final determination of **Maynilad's** Rate Adjustment;

WHEREAS, finding the Regulatory Office's resolutions on the above issues to be in order for being in accordance with the CA, MWSS policies, relevant laws and established rules and regulations, the MWSS Board of Trustees is inclined to approve the same;

WHEREAS, from Maynilad's claimed OCP of **Php 67.230 Billion**, the Regulatory Office determined the OCP to be only **Php 60.213 Billion**, as shown in Table 1 below:

Table 1. Regulatory Office's Calculation of <i>Maynilad's</i> 2013 OCP					
(In Billion Pesos)					
YE 31 st December	2008	2009	2010	2011	2012
Receipts					
Water / Sewer	7.807	10.199	11.643	13.324	15.396
Miscellaneous	0.729	0.500	0.688	0.750	0.553
Total Receipts	8.536	10.699	12.331	14.074	15.950
Expenditures					
Operating Expenses	(2.662)	(3.150)	(3.565)	(4.275)	(4.734)
Change in Working Capital	(0.924)	(0.127)	0.181	0.212	(0.390)
Capital Expenditures	(4.763)	(4.703)	(5.758)	(7.049)	(4.451)
Concession Fees	(3.844)	(1.447)	(2.121)	(2.192)	(1.263)
Total Expenditures	(12.193)	(9.426)	(11.263)	(13.304)	(10.838)
2008 Beginning OCP	(34.344)				
Free Cash Flows	(38.000)	1.273	1.068	0.769	5.111
Philippine Inflation Index	100	103	107	112	115
Adjustment Factor to bring Free Cash Flows to 2013 Prices	1.19	1.15	1.11	1.07	1.03
Free Cash Flows at 2013 Prices	(45.261)	1.469	1.188	0.819	5.275
Appropriate Discount Rate (ADR) - second rate rebasing	9.30%	9.30%	9.30%	9.30%	9.30%
ADR Adjustment Factor	1.56	1.43	1.31	1.19	1.09
Free Cash Flows with ADR application (2013 prices)	(70.603)	2.096	1.551	0.979	5.765
Final OCP	(60.213)				

WHEREAS, considering all adjustments in the Future CAPEX and Future OPEX of *Maynilad*, as well as in its Future Receipts, *Maynilad's* Net Future Cash Flows is determined to be Php 233.096 Billion, as shown in Table 2 below:

Table 2. Summary of <i>Maynilad's</i> FCF			
Total from 2013 to 2037			
Amounts in Billion Pesos	Based on <i>Maynilad's</i> May 2013 Model	Adjustments	As Adjusted
Receipts			
Revenues and other income	918.914	(247.621)	671.293
Guarantee deposits	-	1.249	1.249
Total Receipts	918.914	(246.372)	672.542
Expenditures			
Concession fees			
Existing projects plus watershed management	53.534	(35.125)	18.409
AWTIP	-	3.129	3.129
	53.534	(31.995)	21.539
Capital expenditures (disbursements)			
Water CAPEX			
Water sources	30.613	(12.000)	18.613
Operations support	38.479	(12.063)	26.416
NRW management and expansion	53.342	(11.852)	41.490
Wastewater CAPEX			
Sewerage	136.342	(4.324)	132.018
Sanitation	1.496	(0.019)	1.477
Additional disbursements from prior years' CAPEX	-	4.000	4.000
New water source transmission lines	15.202	(5.137)	10.065
	275.475	(41.397)	234.078
Operating expenses			
Salaries, wages and benefits	54.004	(3.512)	50.492
Light and power	42.776	0.958	43.735
Materials and supplies	12.181	0.395	12.577
Repairs and maintenance	26.097	(10.369)	15.728
Contracted services	27.543	(2.721)	24.822
Rental	7.282	(0.504)	6.777
Collection charges	4.141	0.078	4.219
Taxes and licenses	27.062	(18.519)	8.544
Transportation and travel	7.852	(3.354)	4.498
Business meetings and representation	2.581	(0.320)	2.262
Insurance	5.896	(3.765)	2.131
Advertising and promotion	2.081	(1.813)	0.268
Utilities	2.062	(0.002)	2.060
Regulatory costs	1.822	(0.045)	1.578
Others	3.632	(1.510)	2.122
	226.814	(45.002)	181.812
Income tax	83.003	(83.003)	-
Working capital	1.192	0.824	2.016
Total Expenditures	640.018	(200.672)	439.446
Net cash flows	278.896	(45.800)	233.096

WHEREAS, considering the foregoing adjustments and applying an ADR of 7.35%, the Regulatory Office determined a **NEGATIVE** adjustment of 4.82% in *Maynilad's* 2012 average basic water charge of Php 30.28 per cu.m., as shown in Table 3 below:

Table 3. Net Present Value (NPV) (In Million Pesos)	
Opening cash position	(60,213)
Rate-rebasing adjustment	-4.82%
Rate-rebasing amount (pesos per cu.m.)	(1.46)
With rate rebasing adjustments	
CASH FLOWS FROM OPERATING ACTIVITIES	
Water revenues	236,671
Sewer revenues	5,716
Environmental and sanitation	47,334
Miscellaneous revenues	1,574
Guaranty deposits	830
Total RECEIPTS	292,125
Less: Operating expenses	(84,302)
+/- Changes in working capital	(1,044)
Net cash flows from operations	206,778
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures	(134,654)
Concession fees	(11,912)
Net cash flows from investing activities	(146,566)
NPV Discounted Cash Flows	60,213

WHEREAS, pursuant to Article 9.4.3 of the CA, the application of the **NEGATIVE** adjustment of **4.82%** shall, for each of the Charging Years of the Rebasing Period, be equal to the Rebasing Adjustment divided by five. This translates to a **NEGATIVE** adjustment of **0.964%** for each of the Charging Years 2013, 2014, 2015, 2016 and 2017:

9.4.3 Rebasing Convergence Adjustment

The "Rebasing Convergence Adjustment" to be used for the purposes of calculating the Rates Adjustment Limit for each of the five Charging Years of the Rebasing Period shall be determined as follows:

- (i) where the Rebasing Adjustment is found to be positive, the Rebasing Convergence Adjustment for the first Charging Year of the Rate Rebasing Period shall be equal to the Rebasing Adjustment, and the Rebasing Convergence Adjustment for each of the following four Charging Years shall be zero;
- (ii) where the Rebasing Adjustment is found to be negative, the Rebasing Adjustment for each of the five Charging Years of the Rebasing Period shall be equal to the Rebasing Adjustment divided by five." (*Emphasis supplied.*)


WHEREAS, the MWSS Board of Trustees reviewed and evaluated the Regulatory Office's Rate Adjustment determination for **Maynilad** and found the same to be in accordance with the relevant provisions of the CA, MWSS policies, relevant laws, rules and regulations, applicable and established audit parameters, including locally and internationally recognized practices;


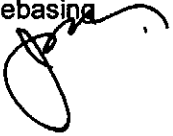
WHEREFORE, as recommended by the Regulatory Office, in accordance with its Resolution No. 13-010-CA dated 10 September 2013 (a copy of which is attached and

made an integral part hereof as Annex "A"), the MWSS Board of Trustees RESOLVED, as it is hereby resolved, to APPROVE the following Resolutions of the Regulatory Office:

1. RO Resolution No. 13-005-CA dated 7 June 2013, treating Corporate Income Tax as a non-recoverable expense and the application of 0% Tax in the computation of the Appropriate Discount Rate (ADR);
2. RO Resolution No. 13-008-CA dated 6 September 2013, discontinuing the charging of the Currency Exchange Rate Adjustment (CERA); and
3. RO Resolution No. 13-003-A-CA dated 7 August 2013, adopting of a new set of Implementing Rules and Regulations (IRR) pertaining to the following matters:
 - a. 2013 Revised IRR on the Disconnection and Reconnection of Water Service Connection;
 - b. IRR on Rate Classification and Billing Scheme of Small-Scale (Home-Based Business);
 - c. IRR on Rate Classification of Places of Worship;
 - d. 2013 Revised IRR on the Billing Scheme and Rate Classification for High Rise and Other Multiple Dwellings;
 - e. IRR on the Treatment and Rate Reclassification of Domestic Customers Inside Military and Police Installations;
 - f. IRR on Additional Meter and Transfer of Connection Tapping Point; and
 - g. IRR on the Rate Reclassification of Certain Government Institutions

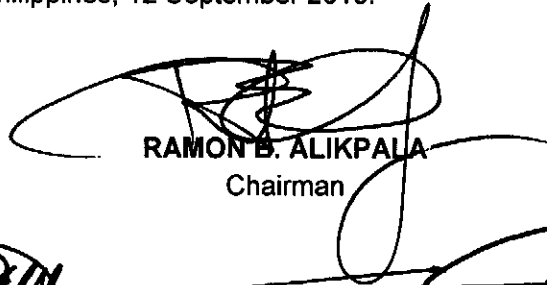
RESOLVED, FURTHER, to DENY *Maynilad's* petition for an upward adjustment of its average basic water charge; and EFFECT a NEGATIVE adjustment of 4.82% of *Maynilad's* 2012 average basic water charge of Php 30.28 per cu.m. to be implemented in 5 equal tranches of NEGATIVE 0.964% per Charging Year;

RESOLVED, FURTHER, to direct the Regulatory Office: 

1. To determine, within 30 days from the approval of this Resolution, the total amount of the incremental revenue brought about by the delayed application of the "R" and the interim adjustment of the rates by the "C" factor of 3.2% beginning 1 January 2013 and to propose the appropriate treatment of the collected incremental revenue thus determined;
2. To review and propose revisions to existing rules, and to recommend new guidelines relating to the following matters:
 - a. Audit Parameters and Prudence and Efficiency Framework
 - b. Transparency Measures (for project management and monitoring and regulatory audit purposes) 
 - c. CAPEX Monitoring
 - d. Key Performance Indicators and Business Efficiency Measures
 - e. Rewards and Penalties Framework
 - f. Timelines and Monitoring Tools (pertaining to enforcement of the Implementing Rules and Regulations)
 - g. Instances of Delay (affecting timely implementation of the Rate Rebasing process) 

RESOLVED, FINALLY, that the new rate shall become effective fifteen (15) days after publication in a newspaper of general circulation, pursuant to Section 12 of the MWSS Charter.

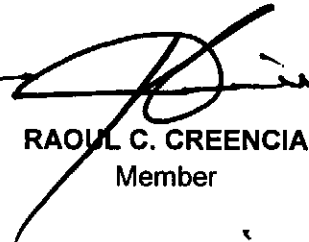
Quezon City, Philippines, 12 September 2013.



RAMON B. ALIKPALA
Chairman



GERARDO A. I. ESQUIVEL
Vice-Chairman & Administrator



RAOUL C. CREENCIA
Member

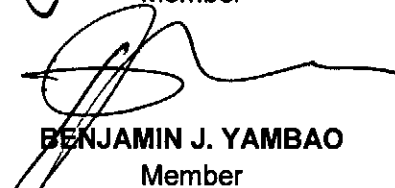
MA. CECILIA G. SORIANO, Ph.D.
Member



JOSE RAMON T. VILLARIN, SJ
Member



EMMANUEL L. CAPARAS
Member



BENJAMIN J. YAMBAO
Member

