



Republikang 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 MANILA WATER COMPANY, INC.
FOR CHARGING YEARS 2013 TO 2017**

BOARD RESOLUTION NO. 2013-101-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 *sofe 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.

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."

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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, **Manila Water** petitioned for an upward adjustment of 22.79% of its 2012 average basic water charge, beginning 1 January 2013 or an equivalent increase of Php 5.83 per cu.m.;

WHEREAS, pending the final determination of the Rebasing Adjustment, **Manila Water** sought an interim rate increase of Php1.00 per cu.m. and a 3.2% Consumer Price Index (CPI) adjustment in its letter dated 13 November 2012 to apply in its average basic water charge, beginning 1 January 2013;

WHEREAS, upon the recommendation of the Regulatory Office in its Resolution No. 12-009-CA dated 28 November 2012, the MWSS Board of Trustees in its Resolution No. 2012-164, declined **Manila Water's** proposed interim rate increase of Php 1.00 per cu.m., but allowed the CPI adjustment of 3.2%;

WHEREAS, the Regulatory Office, with the assistance of its financial, legal and technical consultants, evaluated **Manila Water** proposals and conducted the Rate Rebasing process, pursuant to its mandate under the CA, and mindful of its duty to determine a 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 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 Rebased process, the Regulatory Office has, from time-to-time, updated and discussed with the MWSS Board of Trustees the pertinent issues concerning its final determination of **Manila Water'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 **Manila Water's** claimed OCP of **Php 41.141 Billion**, the Regulatory Office determined the OCP to be only **Php 17.175 Billion** as shown in the Table 1 below:

Table 1. Regulatory Office's Calculation of Manila Water's 2013 OCP						
(In Million Pesos)						
	2008	2009	2010	2011	2012	2013
	Actual	Actual	Actual	Actual	Actual	
Receipts (current prices)						
Water/Sewer	8,815	9,422	10,570	11,411	13,403	
Miscellaneous	358	306	362	146	(29)	
Total Receipts	9,173	9,728	10,932	11,558	13,375	
Expenditures (current prices)						
Operating Expenses	2,568	2,502	2,936	2,607	3,589	
Capital Expenditures	3,037	3,962	5,928	6,752	2,378	
Concession Assets	527	687	907	1,240	1,112	
Corporate Income Tax	1,469	1,006	1,258	969	1,546	
(Loss) gain on disposal of property and equipment	(0.4)	(0.1)	(1.0)	(0.5)	-	
± Working Capital	193	7	(676)	(926)	(217)	
Total Expenditures	7,793	8,164	10,352	10,642	8,408	
2008 OCP	(16,106)					
Total Net Cash Flows (Current year) prices	(14,726)	1,563	580	916	4,966	
Inflation	9.3%	3.2%	3.8%	4.4%	3.2%	3.2%
Price Index	100%	103.2%	107.1%	111.8%	115.4%	119.1%
Real Cash Flows (2013 prices)	(17,539)	1,804	645	975	5,125	
Discount Factor as at June 30, 2013 @ 9.3%	0.64	0.70	0.77	0.84	0.91	1.00
Discounted Cash Flows as at June 30, 2013	(27,360)	2,575	842	1,165	5,602	
Final OCP						(17,175)

WHEREAS, considering all adjustments in the Future CAPEX and Future OPEX of Manila Water, as well as in its Future Receipts, Manila Water's Net Future Cash Flows is determined to be **Php 112.097 Billion** as shown in Table 2 below:

Table 2. Summary of Manila Water's Net FCF (In Billion Pesos)			
	Total from 2013-2037		
	Based on <i>Manila Water's</i> Model	Adjustments	As Adjusted
Receipts			
Revenues and Other Income	677.230	(270.043)	407.187
Guaranty Deposits	-	0.202	0.202
	677.230	(269.841)	407.389
Expenditures			
Concession Fees	54.724	(47.436)	7.288
AWTIP		3.035	3.035
Regulatory Fees	9.893	-	9.893
	64.617	(44.401)	20.216
CAPEX			
Service Continuity	32.908	(11.797)	21.111
Service Accessibility	11.773	1.217	12.990
Water Security	23.010	3.732	26.742
Environmental Sustainability	82.125	3.810	85.935
Parked CAPEX		3.142	3.142
	149.815	0.105	149.920
OPERATING EXPENSES	135.514	(12.273)	123.241
WORKING CAPITAL	33.917	(32.550)	1.367
INCOME TAX	76.947	(76.399)	0.548
NET CASH FLOWS	216.420	(104.323)	112.097

WHEREAS, considering the foregoing adjustments and applying an ADR of 7.35%, the Regulatory Office determined a **NEGATIVE** adjustment of **29.47%** in *Manila Water's* 2012 average basic water charge of Php 24.57 per cu.m., as shown in Table 3 below:

Table 3. Derivation of the "R" (In Billion Pesos)	
OCP	(17.175)
Rate Rebasing Adjustment	(29.47%)
Rate Rebasing Amount (peso per cu.m.)	(7.24)
With Rate Rebasing Adjustment	
CASH FLOWS FROM OPERATING ACTIVITIES	
Water Revenue	137.821
Sewer Revenue	2.158
Environmental Charges	27.564
Miscellaneous Income	1.875
Total Operating Revenue	169.418
Less: OPEX	(56.882)
+/- Changes in Working Capital	(0.882)
Corporate Income Taxes	(0.548)
Net Cash Flows from Operations	111.106
CASH FLOWS FROM INVESTING ACTIVITIES	
CAPEX	82.597
Concession Fees	11.333
Total expected expenditures in 2013 prices	93.930
Discounted Cash Flows	
NPV Discounted Cash Flows	17.175

WHEREAS, pursuant to Article 9.4.3 of the CA, the application of the **NEGATIVE** adjustment of 29.47% 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 5.894% 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 **Manila Water** 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. 13-009-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 AND CONFIRM** 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 *Manila Water's* petition for an upward adjustment of its average basic water charge; and to EFFECT a NEGATIVE adjustment of 29.47% of *Manila Water's* 2012 average basic water charge of Php 24.57 per cu.m. to be implemented in 5 equal tranches of NEGATIVE 5.894% 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