

**MWSS REGULATORY OFFICE  
NARRATIVE ACCOMPLISHMENT REPORT  
CY 2013**

This report highlights the undertakings of the Metropolitan Waterworks and Sewerage System Regulatory Office (MWSS RO) for CY 2013 and the management of essential information related to MWSS RO internal and external affairs and other regulatory-related concerns during the year in review.

For CY 2013, the Acting Chief Regulator, together with three other Deputy Administrators, were preoccupied executing MWSS RO core functions and addressing regulatory issues like rate rebasing concerns, tariff evolution, capital expenditure and project status in the East and West zones.

The MWSS RO has come across its most challenging role as enforcer of rate and service standards, with 2013 being a rate rebasing year.

**High-performance rating card**

In line with the performance agreement with Governance Commission for GOCCs (GCG), the MWSS RO earned an above target high-performance rating of 94.8 percent.

For Fiscal Year 2013, the MWSS RO was able to comply with the requirements of the GCG's performance agreement pursuant to the Performance Evaluation System for the GOCC Sector (GCG MC No. 2013-02) and was able to get high rating in the Major Final Output (MFO) Annual Scorecard for CY 2013. With this, the MWSS RO qualified for the Performance-Based Incentive System for government employee or also called as PBB (Executive Order No. 80)

Based on MFO-1 and MFO-2, as rated by the GCG, MWSS RO obtained an overall high rating performance for its exemplary performance in Regulatory Services and Consumer Welfare and Protection Services.

**Rate Rebasing Exercise**

On 12 September 2013, MWSS RO announced a downward adjustment in average basic water charges, effectively denying the petition of its two concessionaires, Manila Water Company Inc. (Manila Water) and Maynilad Water Services Inc. (Maynilad), to raise average water rates in the next five years as part of the MWSS RO rate rebasing review.

The MWSS Board of Trustees signed two separate resolutions on the Rate Rebasing Determination of both concessionaires, Resolution No. 2013-100-RO for Maynilad and

Resolution No. 2013-101-RO for Manila Water. MWSS approved and ordered a negative adjustment in the average basic charges being implemented by the two concessionaires.

The Board has given its nod to a negative adjustment of 29.47 percent of Manila Water's 2012 average basic water charge of Php 24.57 per cubic meter. The adjustment will be implemented in five equal tranches of -5.894 percent per charging year. Manila Water proposed a basic rate increase of Php 5.83 cubic meter.

Likewise, the Board approved a negative adjustment of 4.82 percent of Maynilad's 2012 average basic water charge of Php 30.28 per cubic meter. The adjustment will be implemented in five equal tranches of -0.964 per cent per charging year.

This is the first time since the privatization of water services in 1997 that rates were ordered reduced. The past two rate rebasing reviews resulted in huge increases in water rates.

The key elements in the conduct of rate rebasing are the examination of the Concessionaires' cash position, determination of appropriate discount rate, evaluation of past and future service obligation targets and evaluation of future capital and operating expenditure.

The 2013 Rate Rebasing exercise was a key element in the review and confirmation or revision of existing policies, as well as formulation of rules and regulations on regulatory matters including the following: audit parameters and the prudence and efficiency framework; CAPEX monitoring; Key Performance Indicators and Business Efficiency Measures.

### **Arbitration with Manila Water, Maynilad**

Pursuant to Article 12.4 of the Concession Agreement, the two water concessionaires challenged the rates determined by the MWSS RO by filing their respective dispute notices. Manila Water filed its dispute notice on 24 September 2013, while Maynilad filed on 4 October 2013, officially commencing the arbitration process for both.

The current water rates will continue to apply until final decision is reached by an arbitration panel composed of a member appointed by concessionaires, a member appointed by MWSS, and a third member, the Appeals Chairman or presiding arbitrator, appointed by the International Chamber of Commerce.

The arbitration panel will conduct proceedings in accordance with the arbitration rules of the United Nations Commission on International Trade Law.

### **Public Consultations**

As part of its regulatory function, the MWSS RO undertakes Rate Rebasing exercise every five years to review and evaluate the concessionaires' performance on the basis of their service compliance obligation.

In keeping this mandate, the MWSS RO has conducted two-step flow public consultation: The first flow was completed in February 2013. It was dedicated to solicit recommendation and comments of consumers as part of the inputs to draft 2013-2017 Business and Investment Plan. The RO together with Maynilad paid a visit to 10 cities namely: Quezon, Las Pinas, Paranaque, Makati, Navotas, Caloocan, Manila, Malabon, Valenzuela and Imus, Cavite.

The second flow was undertaken on June 11 and 13, 2013 at the Philippine Trade and Training Center in Pasay City and Seameo-Innotech in Quezon City.

Among the issues discussed during the public consultation are Sewerage and Water Sanitation, Operating Expenses (OPEX), water tariff per cubic meter, additional water meter and pressure, water rate classification, 24-hour water supply, annual performance audit of Manila Water and Maynilad, Rate of Return Base (RORB,) pipe laying and water connection, water quality, pressure and connection, difference in water tariff, publication schedule of indicative water tariff, opening cash Position (OCP), illegal water connection, road restoration bulk water selling with Implementing Rules and Regulations (IRR), proposed water tariff adjustment and on-going and future projects of the two concessionaires with corresponding proposed investment for the succeeding five years.

The MWSS RO, while subscribing to the rate rebasing framework, considered the paramount concern of the whole process and practiced complete adherence to the Concession Agreement and applicable laws, balancing reasonable tariff for consumers against fair returns for concessionaire, observing transparency, and performing policy reviews, clarifications and enhancement during the rate rebasing process.

### **Water Quality Monitoring**

For CY 2013, the MWSS RO conducted regular water quality monitoring to ensure that millions of Metro Manila residents have access to safe drinking water, and to intensify public safety. The MWSS RO also monitored and evaluated the service performances of the concessionaires in supplying potable and safe domestic water to all customers.

Both Maynilad and Manila Water are mandated to comply with the standards for safety water transmission, treatment and distribution processes set in the Philippine National Standards for Drinking Water issued by the Department of Health, the lead agency tasked to implement the Sanitation Code of the Philippines.

MWSS RO has ensured that both Concessionaires have complied with the environmental standards at 95 percent level of acceptability.

## Consumer Welfare and Protection

For CY 2013, the MWSS RO also resolved pressing regulatory issues and concerns which impact on customer service standards. The MWSS RO came up with Implementing Rules and Regulations (IRRs) on common regulatory issues in consultation with the concessionaires, as follows:

1. IRR on Administrative Fees and Charges;
2. 2013 Revised IRR in the Temporary Disconnection/Reconnection of Water Service Connection;
3. IRR on Rate Classification and Billing Scheme of Small-Scale (Home-Based) Businesses;
4. IRR on Rate Classification of Places of Worship;
5. 2013 Revised IRR in the Billing Scheme and Rate Classification for High Rise and Other Multiple dwellings;
6. On the Treatment and rate Classification of Domestic Customers Inside Military and Police Installations;
7. IRR for Additional Meter and Transfer of Connection Tapping Point; and
8. 2013 IRR on Rate Reclassification of Certain Government Institutions

The MWSS RO also recommended in its Resolution No. 13-005-CA, 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.

### **Risk factors measures**

Knowing the significance of engaging its personnel in risk identification, the MWSS RO is set to conduct its own Risk and Control Self Assessment (RCSA) activity to control and minimize the exposure to such risks.

To improve its services, the MWSS RO vowed to identify potentials risks and formulate strategies to address them in advance

MWSS regulators believed that identifying and mitigating a risk means minimizing the consequences of the risky event and necessitates preparation for the occurrence of risks and other negative events that may disrupt the agency's service.

### **Maintaining Quality Service Standard**

The MWSS RO remains committed to its mandate and maintaining utmost quality service and innovative workforce to ensure that stakeholders continue to enjoy highest service standards.

The MWSS RO is also preparing for the next challenges to attain its desired service standards at levels of excellence and to provide a blueprint for building and maintaining a total organizational commitment to greater customer satisfaction

The MWSS RO also committed itself to accountability and transparency in the performance of its mandate to ensure an interrupted and adequate supply and distribution of potable water for domestic and other purposes at just and equitable rates.

### **ISO Certification**

The MWSS RO has sought the assistance of the Development Academy of the Philippines (DAP) to secure the International Organization for Standardization (ISO) 9001: C2008 certification.

In order to prove competency and emphasize compliance with ISO 9001 and to comply with the Government Quality Management System Standards, MWSS RO vowed to refine its processes for the enhancement of the Rate Rebasing framework and preparing a manual containing the documented Rate Rebasing Process.