

It's time to reflect on our story.

About the Report

2015 was a year for clarity, decisiveness, and reflection. Though arbitration results were inconsistent and we faced challenges in the regulatory framework, we still delivered services our stakeholders can rely on. This accomplishment report tells our story.

We look back at the challenges we faced within the regulatory environment. Last year's arbitration was challenging, but this year, we were met with conflicting arbitral awards, while preparing for the next rate rebasing exercise. We did our best to set just and equitable rates. And being clear about our mandate, we made sure we are consistent in exercising it.

We reflect on the actions we have taken to achieve our vision. As regulator of the privatized water and sewerage system for Metro Manila and its neighboring towns, we make it our business to promote consumer welfare. Carrying the theme 'Reflections', we reflect on our impact in providing safe, potable and affordable water and environment-friendly sewerage system to the public.

And we present our accomplishments in a brand new way. This year, we decided to show you our report card. This is how we have performed against our goals and delivered regulatory services our stakeholders can rely on.

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Safe and continuous water for all
Accurate water and sanitation charges
Environment-friendly sewerage system

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Improving regulation

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Highly-skilled workforce
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Performance highlights

93% overall performance rating

Ensuring a continuous supply of safe, reasonably priced water and healthy waterways through effective regulation is at the heart of our activities. Our above-target high performance rating in 2015 was achieved across eight performance objectives.

SOCIAL IMPACT

#1 — Safe and continuous water for all - 22.5%

98.43% compliance with regulatory standards

2,127,862 total water service connections

2,063,028 connections with reliable water supply

#2 — Accurate water and sanitation charges - 17.5%

100% of rate petitions resolved in time

2,152 accounts reclassified

#3 — Environment-friendly sewerage system - 15.0%

96.58% compliance with wastewater quality standards

173,317 total sewer connections served

130,386 septic tanks desludged

STAKEHOLDERS

#4 — Empowered Stakeholders - 8.0%

49 out of 51 public issues addressed

4.6 out of 5.0 satisfaction rating from stakeholders

INTERNAL PROCESS

#5 — Improved Monitoring Functions - 19.0%

1,632 customer taps tested

585 wastewater samples tested

126 benchmark customers monitored

98.08% of complaints resolved within 10 days

ORGANIZATION

#6 — Highly-Skilled and Engaged Workforce - 6.0%

100% of employees trained through 26 training programs

#7 — Quality Management System - 3.0%

Submitted the draft QMS Manual to the Chief Regulator

FINANCE

#8 — Optimized Use of Resources - 2.0%

80.3% of the budget utilized

A few historical notes

1878

Carriedo Waterworks

Construction began on the first water system in the country, the Carriedo Waterworks, delivering 16 million liters of water per day to 300,000 people in old Manila.

1908

Manila Water Supply System

Carriedo Waterworks evolved into the Manila Water Supply System. Additional pumping facilities and a new water supply system is also built over the Marikina River, increasing water capacity to 92 million liters of water per day.

1919

Metropolitan Water District

Water supply stabilized and water coverage expanded to the 14 neighboring cities and municipalities of Manila with the creation of the Metropolitan Water District.

1955

National Waterworks and Sewerage Authority (NAWASA)

Nationwide coverage is realized through the National Waterworks and Sewerage Authority (NAWASA).

1971

Metropolitan Waterworks and Sewerage System (MWSS)

The Metropolitan Waterworks and Sewerage System (MWSS) was created, replacing NAWASA and transforming the water supply system from its national coverage back to supplying water to Metro Manila and neighboring towns.

1995

Water Crisis

With a looming water crisis, Republic Act No. 8041, otherwise known as the National Water Crisis Act of 1995, created a legal basis for privatization and authorized the President to reorganize MWSS into a more effective and innovative organization.

Executive Order No. 286 approved the reorganization of MWSS and prepared the groundwork for eventual privatization.

1996

Private Sector Participation

Executive Order No. 311 encouraged the private sector's participation in the operation and facilities of MWSS.

1997

MWSS Regulatory Office

On its 120th year, MWSS was privatized, splitting its jurisdiction into two water zones: the east zone to be serviced by the Manila Water Company, Inc. and the west zone to be serviced by Maynilad Water Services, Inc.

By virtue of the Concession Agreements, the MWSS Regulatory Office was created in August 1997.

Message from the Chairman

At this point, it is important for us to be able to establish the landmarks and the legacy issues that we have put up during our watch in the MWSS. Our office is mandated to monitor and implement the Concession Agreements that we have entered into with the two Concessionaires—Maynilad and Manila Water. At the same time, we have also been directed to drastically cut down our organization, by virtue of the privatization of the water supply system.

I believe that we have more than kept our end of the bargain. The Concessionaires are abiding with their duty under the Concession Agreement to maintain a steady supply of water while building more water lines and storage facilities. There have been wrinkles in our relationship with them, notably, their objection to the results of the rate rebasing exercise done in 2013 as well as our refusal to allow them to pass on to the consumers their corporate income tax. But these issues are par for the course. I expect that all parties will abide by the outcome of the arbitration. What is more important is that nobody loses sight of the main goal, which is the provision of a "safe, adequate, affordable, and reliable water supply" to the general public.

I am proud to note that the full confidence that we, in the Board of Trustees, have bestowed on the Regulatory Office has enabled it to pursue its mandate as aggressively as possible, without losing touch with all stakeholders. The strong partnership between the Regulatory Office and the Corporate Office will surely be noted as one of the key milestones in this journey.

Congratulations, once again, for a job well done. We have, as St. Paul said, "fought the good fight, finished the race, kept the faith." And that is no mean feat.

Arch. Gerardo A.I. Esquivel

Chairman, MWSS Board of Trustees

Administrator, MWSS Corporate Office

Board of Trustees

Arch. Gerardo A. I. Esquivel, Chairman

Arch. Esquivel already owned a successful construction business before he was persuaded to join public service and help run MWSS. An Architecture graduate from the University of the Philippines, he is currently the Administrator of MWSS and serves as the acting Chairman of the Board of Trustees. In 2014, he was recognized by the University of the Philippines Alumni Association for his outstanding achievement in Good Governance, a reflection of his hard work, commitment and leadership in supporting the Administration's initiative for clean and honest governance in MWSS.

Atty. Emmanuel L. Caparas

Graduating at the top rung of the UP Law Class of 1985, Atty. Caparas was a research attorney in the 1986 Philippine Constitutional Commission. In the same year, he joined the Supreme Court as a law clerk, while doing concurrent work at the House of Representatives Electoral Tribunal. He left public service for some time, going into private practice and later building a successful IT business. He returned to the Supreme Court as head of its Management Information Systems Office. He also served as Chair of the Court Technology Department of the Philippine Judicial Academy. Until June last year, Atty. Caparas served as MWSS Chief Regulator, before being designated as spokesman for the Department of Justice in November.

Olivia La'O Castillo, Ph.D.

A member of the United Nations Secretary-General's Advisory Board on Water and Sanitation and the President and a founding member of Sustainable Development Solutions for Asia and the Pacific, Dr. Castillo has been involved in various intergovernmental and private programs that push for sustainable production initiatives and approaches in the Asia Pacific region. Working towards a more sustainable world, she has served as an environmental consultant to projects for the Joanneum Research Institute in Austria, the Asian Development Bank, the United Nations Environment Program, the United Nations Conference on Trade and Development, and the United Nations Industrial Development Organization.

Atty. Raoul C. Creencia

As the Government Corporate Counsel and a member of the MWSS Board of Trustees from August 2010 until October 2015, Atty. Creencia was already an accomplished private lawyer before entering government service. As a private lawyer, he was engaged in corporate and civil litigation, arguing cases all the way to the Supreme Court en banc. Upon his appointment to the Office of the Government Corporate Counsel (OGCC), Atty. Creencia embarked on a "back to basics" program of reforms guided by his ABC Formula of Able Lawyers, Better Service and Clearer Rules. Through these reforms, the OGCC achieved a zero-backlog in rendering opinions, reviewing contracts, and handling administrative cases, enabling them to better serve the government corporate sector.

Atty. Ireneo M. Galicia

The current Government Corporate Counsel and a member of the Integrated BAR of the Philippines, Atty. Galicia recently became a member of the MWSS Board of Trustees last October. He has extensive experience in Intellectual Property Law, the Agreement on the Trade-Related Aspects of Intellectual Property Rights, and the Doha Declaration, as well as Philippine laws on food, drugs and cosmetics. Before joining the Office of the Government Counsel, he also served as Deputy Director General in the Intellectual Property Office, as Chief Legal Counsel of the Food and Drugs Authority, and as Legal Consultant to the Office of the Department of Health Secretary. He has also taken part in negotiations regarding Intellectual Property provisions in the ASEAN region.

Ma. Cecilia G. Soriano, Ph.D.

An expert in water sector financing policies and institutional reforms, Dr. Soriano received her Ph.D. in International and Development Economics from the University of California, Berkeley. She served as an Undersecretary for the Department of Finance during the Ramos Administration and was seconded to the World Bank's Board of Directors as Advisor to the Executive Director for Brazil, Colombia and the Philippines. She has conducted various studies on

the water industry for the World Bank, the Asian Development Bank, the Australian Agency for International Development, and the United States Agency for International Development. Dr. Soriano is also an expert in decentralization, economics, and fiscal management.

Helena Agnes S. Valderrama, Ph.D.

Dr. Valderama is a professor of the Cesar E. A. Virata School of Business of the University of the Philippines. A certified public accountant and an expert in financial regulation, she has served as consultant for stakeholders in the power sector including the Energy Regulatory Commission, the Asian Development Bank, and the United States Department of Energy Sustainable Energy Development Program. Dr. Valderrama was also part of the finance and accounting team who evaluated the Concessionaires' submissions during the Regulatory Office's first rate rebasing project in 2002. She earned her Master's Degree in Technology Policy and Management from the University of Wollongong, New South Wales, Australia, and her Ph.D. in Business Administration from the University of the Philippines.

Fr. Jose Ramon T. Villarin, SJ

"Fr. Jett", as he is more commonly known, is a Jesuit priest, an international expert on climate change, and the President of the Ateneo de Manila University. Because of his work on greenhouse gas emissions, Fr. Jett became part of the Intergovernmental Panel on Climate Change, a team of scientists who won the 2007 Nobel Peace Prize together with former US Vice President Al Gore. An active member of several local and international environment and climate change groups, he served as lead reviewer of the United Nations Convention on Climate Change and has worked with the United Nations Consultative Group of Experts for Developing Countries. He received his Ph.D. on Atmospheric Sciences from the Georgia Institute of Technology.

Mr. Benjamin J. Yambao

A certified public accountant and professional banker, Mr. Yambao has held key positions in various organizations across the banking industry in the last 40 years. Before joining the Board of Trustees at MWSS, he served as Senior Bank Examiner at the Bangko Sentral ng Pilinas and as President of the Manila Banking Corporation and the Chamber of Thrift Banks. He currently serves as Consultant to the Board of Directors at the Chamber of Thrift Banks, as Chairman of the Board of a rural bank, and as Director and Consultant of an insurance company. Mr. Yambao is also a fellow of the Institute of Corporate Directors.

Message from the Chief Regulator

It has been my second year as Chief Regulator of the MWSS Regulatory Office. While I have continued with the advancement of the four Regulation Areas under my command (Technical Regulation, Customer Service Regulation, Financial Regulation and Administration and Legal Affairs) I also made sure that my office did not waver its focus on one of my key advocacies—passing the burden of corporate income taxes on consumers.

As an economist and a Filipino citizen, I am averse to the idea that companies can pass on their corporate income tax to consumers. Thus, for the first time in the history of the Regulatory Office, we stood our ground against the wishes of the Concessionaires in their intent to pass on the tax. This matter, in addition to the ongoing controversy brought on by the rate rebasing exercise conducted in 2013, is the subject of a pending arbitration. I am confident that our side will prevail on both contests.

As mandated by the Concession Agreement, the Regulatory Office is due to conduct another rate rebasing exercise in two years time. We are resolved to conduct a more thorough examination of the Concessionaires past expenditures of the in addition to the other factors in the formula that we have agreed to use. We need to do this so that the implementation of the Agreement will proceed more smoothly and not to add more arbitrable issues.

Let me say that, contrary to the propaganda of our critics, our stand on these contested issues are borne from deep-seated principles. They are not meant to be a distraction to our mandate to serve the general public to the best of our abilities.

May I express, once again, my gratitude for the unstinting support that we have been getting from the MWSS Corporate Office, the Board of Trustees, the employees of the Regulatory Office, and our stakeholders. Your backing has made our job in this office quite noteworthy.

Joel C. Yu, Ph.D.

Chief Regulator, MWSS Regulatory Office

Regulators

Joel C. Yu, Ph.D.
Chief Regulator

Engr. Gerardo A. Sullano
Deputy Administrator for Technical Regulation Area

Atty. Vincent Pepito F. Yambao, Jr.
Deputy Administrator for Customer Service Regulation Area

Ms. Ma. Genaline R. Valera
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Atty. Mylene Joy S. Parras
Acting Deputy Administrator for Administration and Legal Affairs

Mr. Christopher D. Chuegan
Acting Deputy Administrator for Financial Regulation

Managers

Atty. Kristin C. San Pedro
Public Information Department
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Engr. Evelyn B. Agustin
Water Quality Control Department
Technical Regulation Area

Engr. Joel A. Dominguez
Operations Monitoring Department
Technical Regulation Area

Engr. Jose Noel Dalistan
Operations Monitoring Department
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Engr. Rosendo O. Alegre
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Financial Regulation Area

Ms. Maria Sharlene P. Zausa

Financial Audit and Asset Monitoring Department
Financial Regulation Area

Making sense of conflicting arbitral awards

The Third Rate Rebasing Disputed

Under the Concession Agreements between the MWSS and the two Concessionaires, Maynilad and Manila Water, a rate rebasing exercise is mandatory every five years to "reset" basic water rates in a way that will allow the Concessionaires to recover, over the life of the concession (until 2037), their capital, operating, and investment expenditures. The purpose is to provide incentives for Concessionaires to improve efficiency and increase investments, while benefiting consumers with lower water rates and better quality services.

During the third rate rebasing exercise in September 2013, the MWSS Board of Trustees rejected the Concessionaires' requests to increase water rates, approving a decrease in tariff rates, instead—the first since privatization. Under the new rates, Manila Water was ordered to reduce water prices by PHP 7.24 per cubic meter or 30% decrease of their basic water charges in 2012. Maynilad, on the other hand, was ordered to reduce water prices by Php1.46 per cubic meter, 5% lower than what they charged in 2012.

The reduced water rates were due to substantial disallowances over operating and capital expenditures and to the Regulatory Office's determination that the Concession Agreement does not consider Corporate Income Tax as a recoverable expense. The rate reductions were meant to take effect in October of that year. However, Maynilad and Manila Water chose to challenge the rebased rates, instead. Invoking Article 12 of the Concession Agreement both Concessionaires filed their respective Dispute Notices with the International Court of Arbitration under the International Chamber of Commerce.

The Conflicting Awards

The Appeals Panel for the Dispute Notice filed by Maynilad completed and released its final arbitral award on 29 December 2014, while that for the Manila Water case was released on 21 April 2015.

Maynilad: corporate income taxes can be recovered

In its arbitral award, the Appeals Panel approved an increase of Php4.06 per cu.m. or a 13.41% increase from the average basic charge of Php30.28 per cu.m in 2012. The Panel rendered its decision that corporate income tax can be recovered by the Concessionaire. Thus, Maynilad "is entitled to include its Corporate Income Tax in its Future Cash Flows for each year of operations."

The Appeals Panel also found that "Maynilad is not a public utility itself, but only the agent and contractor of MWSS. As a necessary consequence thereof, the Majority (of the Appeals Panel) finds that the Meralco ruling and the 1985 State Audit Manual, both of which can only be applied to public utilities, are not applicable" to Maynilad.

Manila Water: disallowed to recover corporate income tax

The Appeals Panel rendered its Final Award in favor of MWSS and the Regulatory Office disallowing the recovery of corporate income tax by Manila Water. The Appeals Panel recognized that the proper interpretation of the Concession Agreement leads to the conclusion that corporate income tax is not part of the recoverable expenditures.

Until the third rate rebasing in 2013, corporate income taxes have been treated as part of "Philippine Business Taxes" and are included in the eventual calculation of water tariffs. However, the Panel concludes that "Philippine Business

Tax" does not refer to an income tax that is separately treated under the Philippine law, particularly under the National Internal Revenue Code.

In the same Arbitral Award, the Appeals Panel also found that Manila Water is a public utility. As such, the decision of the Supreme Court in the 2002 Meralco Case—when it ruled that Meralco, as a public utility, could not pass on its income tax obligations to consumers, such that its "income tax should not be included in the computation of operating expenses of a public utility"—applies.

The Appeals Panel rendered a decision that corporate income tax is not an allowed expenditure under the Concession Agreement to the effect that the people of the Philippines should not be burdened directly or indirectly with corporate income taxes that have to be paid by Manila Water as a result of profits made from its business operations.

The Appeals Panel also had strong reservations on whether the contractual intentions of parties in an Agreement that is not purely private in nature can be controlling even in situations that concern public interest. "Legal issues like tax liabilities and the concept of public utilities could well be beyond the full contract autonomy of contracting parties that otherwise can be freely exercised," the Appeals Panel said.

Comparison of Arbitral Awards for Maynilad and Manila Water		
	Maynilad	Manila Water
Arbitral Award	"By majority, finds that the Claimants is entitled to include its Corporate Income Tax in its Future Cash Flows for each year of operations"	"A) Corporate Income Tax is not an allowed Expenditure under the Concession Agreement; B) The Appropriate Discount Rate should not be computed fully pre-tax"
Rate Adjustment	Php4.06/cu.m. "By majority, upholds Claimant's alternative Rebasing Adjustment for the Fourth Rate Rebasing Period of 13.41%, which means an average basic water charge of Php30.28/cu.m., resulting in an adjusted rate of Php34.34 cu.m. for every Charging Year of the Fourth Rate Rebasing Period"	(Php2.77/cu.m.) "(We) order that the Rate Rebasing Adjustment for the period 2013 to 2017 be set as a negative adjustment of 11.05% of MWCI's 2012 average basic water charge of Php25.07 per cu.m., or negative Php2.77 per cu.m. to be implemented in 5 equal tranches of negative 2.21% per charging year"

Sources of basic data:

Final Award UNC141/CYK: Maynilad Water Services, Inc. v. MWSS and the Regulatory Office

Final Award UNC136/CYK: Manila Water Company, Inc. v. MWSS and the Regulatory Office

The regulatory challenge

In view of the conflicting decisions of the two Panels for the arbitration with Maynilad and with Manila Water, the MWSS decided not to implement the Award for the former. The Regulatory Office found it prudent to hold the implementation of Maynilad's Final Award to ensure consistency in tariff setting. Maintaining that it has to be consistent in the exercise of its regulatory mandate under the Concession Agreement.

This was considered the best course of action since simultaneously enforcing the contradictory arbitral awards will immediately give rise to an absurd scenario where Metro Manila's West Zone consumers are forced to bear the burden of Maynilad's corporate income tax, while its East Zone consumers are relieved of a similar burden—a situation that no responsible regulatory agency should allow.

However, while the rate adjustment for the Manila Water Arbitral Award was implemented, Maynilad decided not to accept a partial implementation of its Arbitral Award. Instead, they chose to pursue further legal action against the MWSS and the Regulatory Office, including another international arbitration case.

For its part, the Regulatory Office maintains that it has the moral and the legal obligation to uniformly apply the general rate setting policy under the Concession Agreements. As a government entity, it has the overriding duty to protect and defend the constitutional guarantee to equal protection. Since the identical issues raised by the Concessionaires involve matters of law and public policy, MWSS chooses to settle the issue in Supreme Court with the Office of the Government Corporate Counsel filing a Manifestation requesting to note in the pending cases filed.

Social Impact

Access to water and sanitation keeps getting better. Overall water quality remains high. And increases in water rates stayed low.

We kept watch, so the public did not have to.

1. Safe and continuous water

We regularly monitor the Concessionaires to make sure they are consistently increasing the number of people with access to safe, adequate and potable drinking water within their concession area. Our goal is to achieve complete coverage for residents in Metro Manila and its neighboring towns. In the past year, both Concessionaires delivered on their targets.

1.1 Access to water

Access to water keeps getting better. This year, the target was to increase the total number of water service connections to 2,050,000. This was met, with the Regulatory Office confirming a total number of 2,127,862 water service connections—3.80% higher than the target measure set for the year.

It translates to 103,466 new connections served by both Maynilad and Manila Water in the concession area, bringing us closer to the goal of providing access to water to all residents in the concession area.

Based on the KPI Reports submitted to and validated by the Regulatory Office, Maynilad's customer base has expanded to 1,205,284 service connections in the West Zone with 77,260 new water connections served. Manila Water, on the other hand, increased its customer base to a total of 922,578 water service connections, with 26,206 new water connections served in the East Zone.

STRATEGIC MEASURE Number of water service connections served Target: 2,050,000 Achievement: 2,127,862 connections Status: Target Achieved	
	Number of Water Service Connections Served
2015	2,127,862
2014	2,024,396

Water Service Connections

	New Connections	Total
Maynilad	77,260	1,205,284
Manila Water	26,206	922,578

TOTAL	103,466	2,127,862
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1.2 Continuous water supply

During the first half of the year, 2,063,028 water connections enjoyed the benefits of water that is available 24 hours a day and with enough pressure to reach customer taps without the help of electric pumps. However, by the third quarter, below-normal rainfall due to lingering El Niño resulted in rotating water interruptions and lowered water pressure during off-peak hours—measures to mitigate reduced water supply.

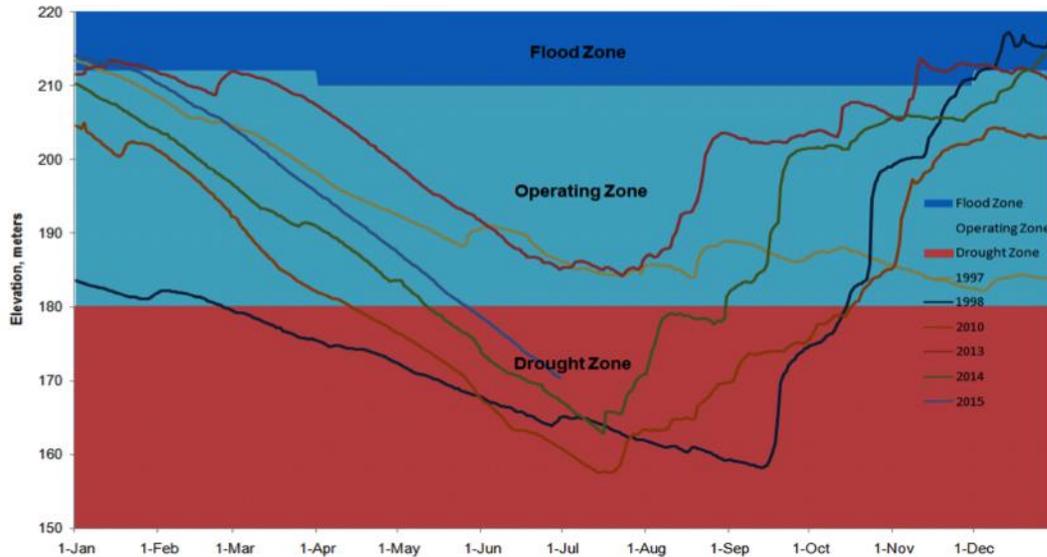
STRATEGIC MEASURE Number of connections with 24 hour and 7 psi water supply Target: 2,019,250 Achievement: 2,063,028 with uninterrupted water supply Status: Target Achieved	
Number of Connections with 24 Hour and 7 psi water supply	
2015	2,063,028
2014	1,953,464
2013	1,894,209

1.2.1. Water Supply and the Angat Reservoir

The Angat River supplies 98% of the raw water requirement of the MWSS. Monitoring its water levels, the Regulatory Office recorded the Angat River's elevation at 214.06 meters on January 1, just above the normal high water level of 212 meters. Water elevation dropped continuously during the first semester, falling into the Drought Zone (<180 meters) from May to July, with the lowest elevation recorded at 169.14 meters on July 5. By the third week of July water levels have begun to improve, breaching the Drought Zone on July 24 and ending the year at 213.74 meters on December 31.

In terms of raw water supply, the Angat River released an average of 37.55 cubic meters per second of water or 3,244.16 million liters per day from January to December—a reduction of 3.27 cubic meters per second from 2014. This resulted in a decrease on the average production of treated water to 3,239.99 million liters water per day—9.94 million liters per day less than the previous year. From this, Maynilad's production decreased by 63.24 million liters per day (3.38%) to 1,805.23 million liters per day, while Manila Water's production increased by 53.29 (3.87%) to 1,431.76 million liters per day.

Angat Reservoir Elevation



1.2.2. Planned Water Service Interruptions

By July, below-normal rainfall due to the effects of a lingering El Niño prompted a series of rotating water interruptions in the Concession area as measures to mitigate the gradual reduction of raw water released from the Angat Dam. This resulted in a total of 1,769 planned water interruptions lasting less than 24 hours, 430 of which all occurred in the fourth quarter of the year—414 in the East Zone and 16 in the West Zone.

When water levels began to rise at the Angat Dam during the early part of the fourth quarter, the Concessionaires discontinued the rotating water interruptions, implementing reduced water pressure during off-peak hours at night, instead.

Planned Water Service Interruptions

	Less than 24 hours	24 hours or more	Post-Monitoring Reports Received
Maynilad	27	2	2
Manila Water	1,742	1	1
TOTAL	1,769	3	3

1.3 Overall water quality

Overall water quality remains high. To make sure Concessionaires only distribute water that is safe for domestic use (drinking, cooking and personal hygiene) 9,216 tests were carried out to check for water quality. From these tests 98.43% complied with the regulatory standard—an outstanding, though slightly lower result from 2014.

<p>STRATEGIC MEASURE Compliance with safe drinking water standards Target: Compliance at 95% and above Achievement: Compliant at 98.43% Status: Target Achieved</p>	
Compliance with Safe Drinking Water Standards	
2015	Compliant — 98.43%

2014	Compliant — 99.35%
2013	Compliant — ??

Out of the total tests conducted, 8,415 or 91% were drawn from 1,623 customers' taps in supply zones, with 4,856 tests conducted in the West Zone and 3,595 in the East Zone. From these tests, 131 failed to comply with the standards, resulting in a 98.54% zonal compliance—97.86% for the West Zone with 103 failed tests and 99.22% for the East Zone with 28 failed tests. While both the East and West Zones were compliant with the 95% requirement, both results also indicate a decrease in quality from 2014.

The remaining 801 water quality tests or 9% were conducted at 6 major water treatment works and two small water treatment works. From these, 14 tests failed to comply with the standards, breaching the Prescribed Concentration Values on residual chlorine and total dissolved solids. All contraventions at water treatment works took place at the Putatan Treatment Plant operated by Maynilad in the West Zone.

Water Quality Tests Conducted			
	Total no. of tests	Number of test not meeting the standard	Compliance with standard, %
In the Supply Zone	8,415	131	98.54%
WEST ZONE	4,820	103	97.86%
EAST ZONE	3,595	28	99.22%
At Treatment Works	801	14	98.42%
WEST ZONE	444	14	96.85%
EAST ZONE	357	0	100%
OVERALL COMPLIANCE	9,216	145	98.43%

The Putatan Treatment Plant

The slight decrease in overall water quality between 2014 and 2015 is largely due to incidents at the Putatan Treatment Plant and its Muntinlupa supply zone.

In 2015, all 14 failed water quality tests carried out at water treatment works in both concession areas occurred in the Putatan Treatment Plant. Here, 45% of tests for residual chlorine and 21% of tests for total dissolved solids failed to comply with the prescribed standards. Meanwhile, 64 out of the 103 failed water quality tests in the West Zone all came from customers' taps in their Muntinlupa supply zone, of which 27% were due to residual chlorine and 22% due to total dissolved solids.

The likely culprit for these water quality incidents are a prevailing ammonia problems and an algae bloom incident monitored between June 2 to 23 in the Laguna de Bay where the Putatan Treatment Plant draws raw from from.

As a result, the Regulatory Office issued a "Notice of Non-Conformance", insisting that Maynilad must improve its compliance through better operational practices, more effective control measures and, if necessary, alternative disinfectants and treatments. The regulatory body insists that a competent contractor would have anticipated the high levels of ammonia in the Lake, given the known presence of naturally occurring organic materials and industrial wastes discharged into it.

2. Accurate water and sanitation charges

We regularly resolve rate petitions and monitor the variables that affect water rates (fluctuations in foreign currency, inflation and interest rates) to promote fair and equitable prices. We also make sure that consumers are billed accurately and at the lowest overall cost by the Concessionaires. And should it be necessary, we also monitor Concessionaires to make sure they replace your water meter if they become defective.

2.1 Rate Adjustments

After a year without tariff adjustments, rate adjustments to the Standard Rates and Foreign Currency Differential Adjustment (FCDA) resumed in 1 January 2015 with the Regulatory Office resolving all rate petitions within the prescribed time frame of 15 calendar days before implementation. By the year's end, rate adjustments resulted in lower basic water rates that will take effect on January 2016—a reduction of PHP 0.19 per cu.m. for Maynilad customers and PHP 0.26 per cu.m. for Manila Water customers.

STRATEGIC MEASURE			
Rate petitions resolved within 15 days			
Target: 70%			
Achievement: 100% of rate petitions resolved within 15 days (10 out of 10)			
Status: Above-Target Achievement			
	Number of Rate Petitions Resolved within 15 calendar days	Total Number of Rate Petitions Submitted	Percentage
2015	10	10	100%
2014	??	??	50%
2013	??	??	67%

Rate petitions resolved within 15 days			
	Number of Rate Petitions Resolved within 15 calendar days	Total Number of Rate Petitions Submitted (Standard Rates)	Total Number of Rate Petitions Submitted (FCDA)
Maynilad	5	1	4
Manila Water	5	1	4
Total	10	2	8

Standard Rates Adjustment

Subject to a rate adjustment limit, standard rates are adjusted once a year to compensate for increases in the consumer price index (CPI). In December the Regulatory Office recommended a rate adjustment limit of 0.80% for Maynilad and -1.41% for Manila Water that will take effect on 1 January 2016.

The rate adjustment limit is the percentage, either positive or negative, of the sum of three factors. These are the "C" factor or the annual percentage change in the CPI; the "E" factor, referring to any extraordinary price adjustments; and the "R" factor, which takes into account any rebasing convergence adjustment.

For Maynilad, the standard rates adjustment was limited to the C factor calculated at 0.80%. This resulted in an increase of PHP 0.27 per cu.m., bringing water rates up to PHP 33.87 per cu.m. from the prevailing rate of PHP 33.60 per cu.m. Meanwhile, the standard rate adjustment for Manila Water was at -1.41%, calculated from the -2.21% R factor and the 0.80% C factor. This resulted in a PHP 0.36 per cu.m. reduction, bringing water rates down to PHP 24.29 per cu.m. from PHP 24.25 per cu.m.

Foreign Currency Differential Adjustments

To cover fluctuations in foreign exchange rates, the Regulatory Office resolved eight FCDA petitions (four from each Concessionaire, one in every quarter). All petitions were evaluated within 15 calendar days.

The FCDA is a mechanism that accounts for foreign exchange losses or gains resulting from the MWSS and Concessionaire loans used for capital expenditures and concession fee payments. It is a corrective measure that helps avoid under recovery or over recovery caused from movements in foreign exchange rates.

For Maynilad, the approved quarterly FCDA resulted in increases of PHP 0.38 per cu.m. during the second quarter, PHP 0.42 per cu.m. during the third quarter, and PHP 0.53 per cu.m. during the fourth quarter of 2015. A PHP 0.07 per cu.m. increase was also approved that will take effect on the first quarter of 2016.

FCDA Maynilad

Start of Charging Period	FCDA per cu.m		FCDA in %	
	Approved	Submitted	Approved	Submitted
2 nd Quarter 2015	0.38	0.39	1.16	1.20
3 rd Quarter 2015	0.42	0.47	1.26	1.40
4 th Quarter 2015	0.53	0.59	1.58	1.75
1 st Quarter 2016	0.07	0.09	0.21	0.26

For Manila Water, increases in the 2015 FCDA were approved at PHP 0.05 per cu.m. for the second quarter, PHP 0.02 per cu.m. for the third quarter, and PHP 0.05 per cu.m. for the fourth quarter of 2015. Likewise, an increase of PHP 0.15 per cu.m. was approved for the first quarter of 2016.

FCDA Manila Water

Start of Charging Period	FCDA per cu.m		FCDA in %	
	Approved	Submitted	Approved	Submitted
2 nd Quarter 2015	0.05	0.06	0.18	0.20
3 rd Quarter 2015	0.02	0.02	0.08	0.08
4 th Quarter 2015	0.05	0.05	0.21	0.21
1 st Quarter 2016	0.15	0.15	0.59	0.59

Reduced Water Rates

The net effect of adjustments in Standard Rates and the FCDA resulted in reduced water rates for both Maynilad and Manila Water Customers by the end of 2015. On 10 December 2015, the Board of Trustees issued resolutions approving and confirming recommendations from the Regulatory Office to implement a PHP 0.19 reduction in water rates for Maynilad and a PHP 0.26 decrease in water rates for Manila Water.

This means Maynilad's lifeline customers or those consuming 10 cubic meters (cu.m.) or less per month will see their monthly water bill go down by PHP 0.64. Residential customers will likewise see a decrease in their monthly water bill by PHP 2.41 if they consume 20 cu.m. and by PHP 5.03 if they consume 30 cu.m.

For Manila Water, their lifeline customers or those who belong to low income households (such as informal settlers) consuming 10 cu.m. or less per month will see their monthly water bill go down by PHP 1.12, while regular customers consuming 10 cu.m. or less per month will see their monthly water bill go down by PHP 1.38. Those consuming 20 cu.m. and 30 cu.m. will experience their monthly bills decrease by PHP 3.06 and by PHP 6.37, respectively.

The adjustments will take effect on the first day of 2016 and will be reflected on customers' February water bills.

2.2 Account Reclassification

To make way for a more accurate and uniform billing of customers, 2,152 water service connections were reclassified by the end of 2015 under the Implementing Rules and Regulations (IRRs) on Billing Scheme of High Rise Buildings and Other Multiple Dwellings, Government Institutions, and Places of Worships. A new set of IRRs were also approved during the year.

STRATEGIC MEASURE

Percentage of accounts reclassified based on IRRs

Target: 20%

Achievement: **66.56%** (2,152 out of 3,233 accounts)

Status: Above-Target Achievement

(New measure, not applicable in 2013 and 2014)

New set of IRRs take effect

To make sure water rates accurately reflect the type of activities taking place in today's residential houses and commercial establishments, the Board of Trustees, on the recommendation of the Regulatory Office, approved a new set of Implementing Rules and Regulations (IRRs). Known as the 2013 IRRs, the seven new IRRs were approved and confirmed through Resolution Nos. 2013-100-RO and 2013-101-RO (both dated 12 September 2013) and took effect on 02 July 2015. These are:

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

These IRRs reflect a consensus between the Regulatory Office, Corporate Office, and the Concessionaires Maynilad and Manila Water.

Reclassification under the 2008 IRRs

A total of 1,646 accounts have been reclassified under Regulatory Office Resolution No. 2008-274 or the Interconnection and Turn Over of Subdivision's Water System. Of these accounts, 1,239 were reclassified by

Maynilad, while 407 were reclassified by Manila Water. Meanwhile, 509 accounts classified as People's Organizations have been individualized by Manila Water in compliance with Regulatory Office Resolution No. 05-006 or the Individualization of People's Organizations. Maynilad, however is not covered by this resolution.

Connections reclassified under the 2008 IRRs

	Maynilad	Manila Water
Interconnection and Turn Over of Subdivisions	69.21% 1,239 of 1,783 accounts	60.57% 407 of 672 accounts
Individualization of People's Organizations	N/A	67.42% 509 out of 755 accounts

I.

Reclassification under the 2013 IRRs

A total of 384 accounts were reclassified under IRR No. 2013-04 or the Revised IRR in the Billing Scheme and Rate Classification for High Rise and other Multiple Dwellings. Of these accounts, 238 out of 276 covered accounts were reclassified by Maynilad, while 146 out of the total 269 accounts were reclassified by Manila Water.

Under IRR No. 2013-07, the Rate Reclassification of Certain Government Institutions, a total of 877 accounts have been reclassified. From these 580 out of 662 were reclassified by Maynilad, while 297 out of 609 were reclassified by Manila Water. A total of 826 accounts were also reclassified under IRR No. 2013-03 or the Rate Classification for Places of Worship. From this, Maynilad reclassified 481 out of 565 covered accounts, while Manila Water reclassified 345 out of 830 accounts.

Connections reclassified under the 2013 IRRs

	Maynilad	Manila Water
Disconnections and Reconnection of Water Services	Disconnected - 44,588 Reconnected - 24,930	Disconnected - 17,807 Reconnected - 10,974
Rate Reclassification of Small Scale (Home-Business)	47.86% 874 of 1,826 accounts	20.95% 211 out of 1,007** accounts
Rate Classification of Places of Worship	85.13% 481 out of 565 accounts	41.57% 345 out of 830** accounts
Revised IRR on Billing Scheme and Rate Reclassification of High Rise and Other Multiple Dwellings	86.23% 238 of 276 accounts	54.28% 146 out of 269** accounts
Rate Reclassification of Domestic Customers inside Military and Police Installations	100% 4 out of 4 accounts	100% 9 out of 9 accounts
Additional Water Meter and Transfer Location of Tapping	N/A	100% 11 out of 11 applications
Rate Reclassification of Certain Government Institutions	87.61% 580 out of 662 accounts	51.56% 297 out of 609** accounts

* Data as of 30 September 2015

** Includes not qualified accounts.

2.3 Meter Efficiency

We take the accuracy of water meters seriously. To make sure that consumers pay only for the amount of water they actually consume, we evaluate the Concessionaires' reports on the accuracy of their meter readings.

Complaints on Defective Meters

The Regulatory Office analyzed the quarterly reports of the Concessionaires regarding water meter testings for the year. Based on their KPI reports, Maynilad received a total of 4,863 complaints on defective meters, which makes 5% of the 96,339 total complaints received. Manila Water, on the other hand, received a total of 1,903 complaints on defective meters or 1.66% of the 78,477 total complaints they received.

Complaints Received		
	Compl aints due to Defecti ve Meters	Total Complaints Received
Maynilad	4,863	96,339
Manila Water	1,903	78,477
Total	6,766	174,816

Concessionaires' Meter Tests

Maynilad pulled out and inspected a total of 1,033 water meters that were suspected to be defective or tampered with. From these, 724 units or 70% passed the flow accuracy test and were found to still be in good working condition. However, there were 136 units or 13% found with defects and inaccurate registrations, due mostly to wear and tear. However, 173 units or 17% of the water meters inspected were found to be tampered with.

Manila Water, on the other hand, pulled out and inspected a total of 2,082 water meters for accuracy. Among these inspected water meters, 1,620 units or 78% passed the flow accuracy test and was found to still be in good working condition. Consequently, 440 units or 21% of the water meters tested were found defective, due to wear and tear. There were also 22 units or 1% of the water meters inspected found to be tampered.

Meter Tests by Concessionaires				
	Suspected Defective or Tampered with	Passed Testing	Found with Defects and Inaccurate Registrations	Found Tampered
Maynilad	1,033	724	136	173
Manila Water	2,082	1,620	440	22
Total	3,115	2,344	576	195

Complaints-Related Meter Tests

The Regulatory Office received 10 invitations to witness a meter testing and inspection conducted by the Concessionaire, 3 came from Maynilad and 7 from Manila Water. Representatives from the Regulatory Office attended 8 of the meter testings where they witnessed one failed test from Maynilad.

Meter Testings Attended				
	Invitations Received	Testing Attended	Passed Testing	Failed Testing
Maynilad	3	2	2	1
Manila Water	7	6	6	0
Total	10	8	8	1

3. Environment-friendly sewerage system

We make sure that Concessionaires regularly collect and treat wastewater from their customers and discharge them in a way that can help improve the health of our waterways.

3.1 Access to Sewerage

Access to sewerage and sanitation services are improving. By the end of 2015, there were 176,317 domestic sewer connections in Metro Manila and its surrounding towns.

Wastewater services has increased with the total domestic sewer connections confirmed at 176,317 (52,588 billed by Maynilad and 123,729 billed by Manila Water). From these, 4,113 were new sewer connections served by Maynilad and 11,447 served by Manila Water.

STRATEGIC MEASURE Number of septic tanks desludged Target: 85,000 Achievement: 130,386 (153.40%) Status: Above-Target Achievement	
Compliance with Safe Drinking Water Standards	
2015	130,386
2014	107,728
2013	??

3.2 Wastewater Quality

Wastewater continues to be treated and discharged to a high standard. Consistent monitoring and testing of wastewater samples collected from 57 Sewage and Septage Treatment Plants showed an overall compliance level of 95.06% against a target of 95%.

STRATEGIC MEASURE Compliance with wastewater quality standards Target: 95.00% Achievement: 95.06%	
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Status: Target Achieved	
Compliance with Wastewater Quality Standards	
2015	95.06%
2014	95.98%
2013	94.81%

The Regulatory Office monitored discharges from 57 Sewage and Septage Treatment Plants in the concession area—19 operated by Maynilad in the West Zone and 38 by Manila Water in the East Zone—for compliance with the effluent quality standards set by the Department of Environment and Natural Resources (DENR) Administrative Order No. 35, Series of 1990, The Revised Effluent Regulations of 1990. To test for wastewater quality, 585 wastewater samples were collected and tested, 168 from the West Zone and 417 from the East Zone.

Maynilad

For Maynilad, compliance with wastewater quality is determined based on the number of samples passing the complete set of five key parameters (biochemical oxygen demand, chemical oxygen demand, total suspended solids, oil and grease, and coliforms), expressed as a percentage of the total number of samples collected. Under this formula, only 151 out of the 168 wastewater samples collected in the West Zone fully complied with the standards, with 17 samples deemed failed. This results in a wastewater quality of 92.75%, indicating below-target performance.

Maynilad's failure to meet compliance in 2015 is due to two factors. First, several plants were given failed compliance on months that they failed to submit a report, submitted a report that was "not in order", or submitted a report with analysis conducted by a laboratory without the proper certification. Second, the Tondo Pumping Sewage Plant that discharges wastewater into the Manila Bay consistently failed compliance following Manila Bay's reclassification from a Class "C" water intended only for fishing and boating activities to a Class "B" water that must be fit for contact recreation (bathing and swimming) which requires higher standards for wastewater quality compliance.

Manila Water

For Manila Water, compliance with wastewater quality is determined based on the number of facilities that reached a minimum performance rating for the year of not less than 95%. In this regard, Manila Water demonstrated a 97.36% performance rating, with 37 out of the 38 Sewage and Septage Treatment Plants it operates meeting the required 95% minimum performance rating.

Though consistently meeting its target over the last three years, the 2015 results indicate a slight drop in wastewater quality from 2014 when Manila Water posted 100% compliance. The drop is attributed to the Bonifacio Sewage Treatment Plant, which is already undergoing an upgrade and expansion to address the failure.

Maynilad

Compliance with Wastewater Quality Standards

Sewage and Septage Treatment Plant	2015	2014	2013
Number of Operational STPs and SpTPs	19	14	7
Total number of samples tested	168	130	45
Number of samples with contravention	17	21	4
Number of samples in compliance	151	109	41
Compliance (Effluent quality), %	92.75	91.95	92.25

**Manila Water
Environmental Performance (Effluent Quality)**

	2015	2014	2013
Sewage/ Septage Treatment Works			
Number of Operational STPs and SpTPs	38	38	37
Total number of samples tested	417	380	291
Number of STPs and SpTPs with performance rating < 95%	1	0	1
Number of STPs and SpTPs with performance rating ≥ 95%	37	38	36
Compliance (Effluent quality), %	97.37	100	97.37

3.3 Access to Desludging Services

Most residents in Metro Manila and its surrounding towns rely on toilets that discharge wastewater into private septic tanks. These need to be "desludged" or emptied every five to seven years to dispose sewage waste safely and effectively.

Based on the Concessionaire's KPI Reports, the Regulatory Office confirmed a total of 130,386 septic tanks desludged in 2015—50% higher than the year's 85,000 target. From these, 63,134 were desludged by Maynilad and 67,252 by Manila Water.

STRATEGIC MEASURE	
Number of sewer connections served	
Target: 165,000	
Achievement: 176,317 (105.04%)	
Status: Target Achieved	
	Number of Sewer Connections Served
2015	176,317
2014	160,078
2013	158,493

Stakeholders

We build relationships with all our stakeholders, get their feedback and make sure they are kept informed with what we do.

Because we are an open, transparent organization.

4. Empowered Stakeholders

We are committed to working closely with our stakeholders so that they understand what we do, how our work affects them, and that they may be empowered in the process. This year, we addressed the issues that concern them, improved how we get feedback, and strengthened our relationship with other agencies.

4.1 Addressing relevant issues

We kept our stakeholders informed about our work and the issues that concern them. Through open communication and active engagement, we addressed 96% of the issues raised by our stakeholders through public consultations, dialogues and briefings.

<p style="text-align: center;">STRATEGIC MEASURE Stakeholder Issues addressed through public dialogues Target: 90% Achievement: 96% (49 out of 51 issues) Status: Above-Target Achievement (New measure, not applicable in 2013 and 2014)</p>
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We issue regular press releases, organize press conferences and conduct interviews to increase public awareness of our work and keep stakeholders informed of developments within the Regulatory Office and in the water and sewerage industries. Most of our media engagements during the year covered the conflicting decisions of the appeals panels on the arbitration cases filed by the Concessionaires, the water quality incident in Muntinlupa, the restoration of Naga Road in Las Pinas City, and the quarterly adjustments in basic water rates due to Foreign Currency Differential Adjustments.

Aside from media engagements, we use public information drives to get feedback and inform stakeholders about policy decisions that affect them. Following the approval of the 2013 IRRs, we conducted three public information drives to make sure attendees understand how they are likely to benefit from the new IRRs. During these activities, we explain the process of rate reclassification, the rules on disconnections and reconnections of water meters, and the potential benefits of rate reclassification.

Through these activities, we successfully addressed 96% or 49 out of the 51 issues raised by our stakeholders.

4.2 Improving how we get feedback

Following the development of the Terms of Reference, plans were underway to commission an independent consultant who will develop a Customer Satisfaction Survey to measure water consumers' satisfaction on how we deliver our regulatory functions. The purpose of the survey is to gather baseline data on the needs, expectations and issues that concern water consumers, and identify potential problems and challenges in the way we deliver regulatory functions.

STRATEGIC MEASURE A

Terms of Reference for Customer Satisfaction Survey
Target: TOR for Customer Satisfaction Survey
Achievement: Developed a TOR for Customer Satisfaction Survey
Status: Target Achieved
(New measure — not applicable in 2013 and 2014)

While the Customer Satisfaction Survey is in development, the Regulatory Office implemented an internally-generated customer survey to serve as feedback mechanism during its three public information drives. Using a 1 to 5 rating scale, where 5.0 means Outstanding and 1.0 means Poor, the Regulatory Office consistently received "Outstanding" ratings, 4.6 on average, during the three events held on August 15, September 15, and October 20.

STRATEGIC MEASURE B

Internally-generated Satisfaction rating from stakeholders
Target: Satisfactory Ratings
Achievement: Outstanding ratings (4.6 out of 5.0)
Status: Above-Target Achievement
(New measure, not applicable in 2013 and 2014)

4.3 Strengthening our inter-agency links

To be effective regulators, we work closely with as many stakeholders within the regulatory framework, including local government units, private companies, and other government agencies. In 2015, we maintained active membership at three inter-agency committees—the Metro Manila Drinking Water Quality Monitoring Committee, the Rizal Drinking Water Quality Monitoring Committee, and the 2016 Updating of the Philippine National Standards for Drinking Water to keep up to date with our peers and the issues that affect our work.

We attended all 12 monthly meetings with the Metro Manila Drinking Water Quality Monitoring Committee and all quarterly meetings with the Rizal Drinking Water Quality Monitoring Committee to monitor water quality in Metro Manila and Rizal. We also attended the 2016 Updating of the Philippine National Standards for Drinking Water Committee held every other month, where we shared our experience working with the two Concessionaires and presented the "KPI Guidance Document on Water Supply" and the organics parameters of the Final Draft of the Updated PNSDW.

This year, the Regulatory Office, led by the chief Regulator, also met with the foreign delegation from Vietnam's Department of Infrastructure and Urban Development, Ministry of Planning and Investment, led by its Deputy General Director. The Vietnamese delegation were briefed on MWSS privatization, the functions of the Regulatory Office, the framework we use to regulate the water, sewerage and sanitation industry, and our policy groundwork in balancing the interest of all stakeholders, and protecting consumers from high water rates, while giving the Concessionaires incentives to invest.

Internal Process

We took steps to strengthen regulatory processes. We improved how we measure compliance. And we continue to promote stability in our mandate.

Our actions has delivered better regulation.

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5. Improved Monitoring Functions

We constantly improve the way we monitor the Concessionaires' compliance with their service targets. Following the challenges we faced in the last rate rebasing exercise, we took steps to set specific guidelines on how to monitor and audit the Concessionaires. We also conducted more frequent audits and validations of their submissions.

5.1 Conducting Regular Audits

We made improvements in the way we audit the Concessionaires' financial performance. Last year, we finished development of an audit mechanism that will clarify how we conduct regulatory financial audits. And despite setbacks, we successfully conducted regular technical audits and inspections on the facilities, operations and infrastructure projects of the Concessionaires.

5.1.1. Regulatory Financial Audits

Pushing for clarity in the way things are done, we took steps to improve our regulatory functions by developing an annual audit mechanism in the form of the Concession Accounting and Auditing Guidelines (CAAG). The CAAG will serve as a document setting out guidelines in conducting an annual audit on the operations of the Concessionaires.

STRATEGIC MEASURE A

Regulatory Financial Audit

Target: Approval of Concession Accounting and Auditing Guidelines

Achievement: Concession Accounting and Auditing Guidelines approved on December 2015

Status: Target Achieved

(New measure — not applicable in 2013 and 2014)

Following the difficulties during the previous Rate Rebasing exercise, the CAAG is meant to aid future rate rebasings by identifying specific costs that can be recovered by the Concessionaires. The purpose is not to introduce new rules into the process, but to clarify existing ones and avoid conflicting interpretations down the line. It will also serve as an audit of the Concessionaires' performance in fulfilling their service obligations.

To this end, we worked with the Concessionaires in forming a technical working group (TWG) to conceptualize the document and discuss the parameters in conducting the audit. Following multiple revisions, reviews, and discussions throughout the year, a final draft of the CAAG was approved by the Regulatory Office in December 15 and has been forwarded to the MWSS Board of Trustees for confirmation. The annual audits are expected to start in 2016 to cover this year's financial data.

5.1.2. Monitoring Capital Expenditures

Despite the setbacks posed by the recently concluded arbitration cases, we did our best to assess the Concessionaires' capital expenditures (CAPEX) for 2015. Based on the reports, both Concessionaires invested a total of PHP 12.976 billion in developing and upgrading essential water and wastewater infrastructure.

STRATEGIC MEASURE B	
CAPEX Disbursed Audit	
Target: 30% of CAPEX Disbursed	
Achievement: Not performed	
Status: Target Not Achieved	
Percentage of CAPEX Disbursed	
2015	0%
2014	0%
2013	70.22%

CAPEX Spending

Based on the eight quarterly CAPEX Accomplishment Reports submitted by the Concessionaires, a combined total of PHP 12.976 billion were invested in essential water and wastewater infrastructure in 2015—slightly higher than the PHP 12.032 both Concessionaires spent in 2014.

For Maynilad, actual CAPEX was PHP 8.752 billion, which is only 63% of its PHP 13.838 billion investment target, according to their Revised Financial Model upheld by the Appeals Panel in 2014. Manila Water, on the other hand, spend PHP 4.224 billion—49% was disbursed for Wastewater, 22% for Water, 9% for Overhead and 21% for Concession Fees. However, no analysis can be made against Manila Water's actual disbursement against the target as there is no official CAPEX Schedule of Disbursement provided to the Regulatory Office.

CAPEX Project Inspection

The Regulatory Office inspected a total of 19 ongoing CAPEX projects during the year, 15 of which are implemented by Maynilad and 4 by Manila Water. For Maynilad, the inspections took place between March 25 and June 17, by which time all scheduled CAPEX projects were already inspected. Inspections for Manila Water, on the other hand, began on March 27 and concluded on July 10, following the Manila Water's decision to defer implementation of new CAPEX Projects due to the arbitration cases between the MWSS and its Concessionaires.

Of the 15 inspected projects under Maynilad, only three projects (PDS Marcos Alvarez Extension, Pasay Sewage Treatment Plant, and PDS w/ SDS Daang Hari Extension and NIA Road) were delayed due to permitting issues. In the case of Pasay Sewage Treatment Plant, the delay was due to a work stoppage order issued by the local officials to give way for the monthly fiestas of barangays in the area.

For Manila Water, two of the inspected projects were delayed. The North and South Pasig Sewerage System Project, which was delayed due to discussions on performance securities and insurances, resulting in a new construction schedule ending on December 2018. The Marikina North Sewerage System, on the other hand, was delayed due to the late delivery of electro-mechanical equipment that were held up due to the congestion at the Port of Manila during the last quarter of 2014.

5.2 More Water Samples Collected and Tested

We conduct regular validations and testing activities to make sure our Concessionaires are complying with their service quality targets of providing safe, potable and continuous water and wastewater services. In 2015, we also made sure to increase the number of tests we conduct as part of our commitment to continuously improving our regulatory functions.

In order to ensure that the quality of water customers receive on their taps are safe for domestic use, we tested samples drawn from 1,623 consumer taps—183 more tests than the previous year. From these customers, a total of 3,246 tests were carried out to check for microbiological quality, residual chlorine, turbidity, and color.

STRATEGIC MEASURE A Water Samples Collected and Tested Target: 1580 Achievement: 1623 (102.72%) Status: Target Achieved	
Water Samples Collected and Tested	
2015	1623
2014	1440
2013	1290

To make sure wastewater discharges are good for the health of our waterways, we also collected and tested 585 water samples—32% higher than the previous year—to check the wastewater quality on the 57 Sewage and Septage Treatment Plants operated by the two Concessionaires.

STRATEGIC MEASURE B Wastewater Samples Collected and Tested Target: 480 Achievement: 585 (121.88%) Status: Above-Target Achievement	
Wastewater Samples Collected and Tested	
2015	585
2014	443
2013	337

5.3 More Benchmark Customers Validated

We identified and monitored more regulatory benchmark customers (RBCs) to improve the accuracy of our readings on water availability and pressure. This year, we monitored 128 RBCs—28 more than last year to establish the Concessionaires' compliance on 24 hours continuity of supply and minimum pressure of 7 psi.

STRATEGIC MEASURE Number of Benchmark Customers Validated Target: 120 Achievement: 126 Status: Target Achieved	
Number of Benchmark Customers Validated	
2015	128
2014	100
2013	80

From the 128 RBCs validated, 53 out of 80 RBCs (or 66.25%) in the West Zone for Maynilad and 42 out of 48 RBCs (or 87.5%) in the East Zone for Manila Water were served with the 24-hour continuous supply and 7 psi water pressure at all times. Majority of the pressure monitoring points validated for Maynilad indicate a zero to negative pressures. The pressure drops can be attributed to a scheduled water interruption experienced by West Zone Customers from August 10 to 13 during a pipe realignment along Juan Luna Street in Tondo, Manila. The supply and pressure management measures initiated by Maynilad to mitigate the gradual reduction of raw water released from the Angat Dam due to lingering El Niño also affected water continuity and pressure. In the case of Manila Water, the reduced water supply allocation from Angat Dam was augmented by additional supply from La Mesa Dam.

Comparing the validated data with the Quarterly Water Availability and Pressure Reports submitted by Maynilad and Manila Water, the results showed that the reported water availability and pressure maps of the Concessionaires are not accurate, since there were monitoring points that did not receive the required 24-hour water supply and 7psi water pressure at all times.

	Maynilad		Manila Water	
	RBCs	24 hour / 7 psi	RBCs	24 hour / 7 psi
1 st Qtr	20	17	12	11
2 nd Qtr	20	16	12	12
3 rd Qtr	20	10	12	9
4 th Qtr	20	10	12	10
TOTAL	80	53	48	42
		66.25%		87.5%

5.4 Resolving customer complaints

We help settle complaints and disputes from consumers who have exhausted the water Concessionaire's complaints system or need to lodge a complaint against their Concessionaire. In 2015, we achieved an above-target resolution rate at 98.08%. In addition to being much higher than the previous year's 90.38%, it is with noting that we received less complaints, as well.

STRATEGIC MEASURE			
Complaints resolved within 10 working days			
Target: 90%			
Achievement: 98.08% of complaints resolved within 10 working days (102 out of 104)			
Status: Above-Target Achievement			
	Number of Complaints Resolved within 10 working days	Total Number of Complaints Submitted	Percentage
2015	102	104	98.08%
2014	141	156	90.38%
2013	??	??	%

Status of Complaints

A total of 116 complaints were received from customers of both Concessionaires during the year, of which 64 were filed against Maynilad and 52 against Manila Water. From this, 104 were endorsed to the Regulatory Office for

resolution. To resolve the complaints, 95 conference meetings and 9 field investigations were conducted. This resulted in decisions for 102 or 98% of the complaints, with 96 resolutions and 8 closure letters issued.

Status of Customer Complaints 2015							
	Complaints Received	Endorsed	Conference Meeting	Field Investigation	Submitted for RO Resolution*	Resolved	
						W/ Closure	W/ RO Resolution
CSMD	60	60	53	9	58	1	57
MED	56	56	42	-	46	7	39
Total	116	116	95	9	104	8	96

Complaints by Category

Among these complaints, 57 involved billing and meter-related issues and was handled by the Metering Efficiency Department. This included issues regarding rate reclassification, excessive billing, average billing, and other related complaints. The other 59 complaints were handled by the Customer Service and Monitoring Department. This included complaints related to water services, sewer services, sanitation, leaks, service applications, and other related issues.

5.5 Improving Regulatory Guidelines

We took steps to improve our regulatory systems and processes. By developing specific parameters on how to do things—developing guidelines on how we monitor the Concessionaires' performance milestones, and establishing guidelines to determine the appropriate discount rate—we can strengthen the Concession Agreement, promote stability in our mandate, and build trust and confidence in the work that we do.

Improving How We Monitor Performance

To improve how we keep track of the Concessionaires' performance, the different regulation areas have been busy developing a set of specific guidelines and procedures on how to evaluate the 21 key performance indicators and business efficiency measures (KPIs-BEMs) used by the Regulatory Office.

The purpose is improve how we monitor and analyze these indicators and gain a better understanding of the Concessionaires' operations. This way, we can make objective assessments on whether they are fulfilling their service obligations and operating efficiently.

For the Regulatory Office, interest in the KPIs+BEMs is threefold. First, it provides a measure of performance for each Concessionaire, both in relative and absolute terms, and against the principal requirements of the Concession Agreement. Second, it provides progressive information on the operational efficiency of each Concession. And third, it facilitates a common reporting format that stakeholders (local and national government, water consumers, and the public at large) can use to assess progress in the Concession areas.

Developing Guidelines for the ADR

Plans are underway to develop a set of guidelines to determine the appropriate discount rate (ADR) for the Concessionaires. Given that there many internationally-accepted formulas to determine the ADR and that calculating its value involves subjective decisions, developing an objective set of guidelines will help promote confidence and clarity.

Organization

We oversee an industry that serves more than 2 million water connections. This year we strengthened our workforce, improved our efficiency, and practiced good governance.

So we can effectively respond to future challenges.

6. Highly-Skilled and Engaged Workforce

We made sure that our organization is constantly moving closer to our vision of an independent and internationally recognized Regulatory Office by nurturing a highly skilled and engaged workforce, beginning development for a competency framework to improve recruitment, performance management and training, and implementing projects that promote a gender-responsive organization.

6.1. Training and Development

The 1:1 personnel to training ratio was finally achieved with 100% of the Regulatory Office's 54-strong workforce attending at least one of the 26 training courses offered during the year. Exceeding the 80% target, this reflects an ongoing commitment to attract, develop and retain a highly-competent and professional workforce who can deliver outstanding regulatory services to consumers.

Of the 26 training programs, fifteen were of a technical nature undertaken for the development of the professional staff, two were for executive and managerial staff, one was for clerical and administrative staff, and three were conducted in support of ISO Certification. Regulatory Office employees also attended a team building activity with their specific regulatory areas, while select members represented the organization in four national conferences and conventions.

STRATEGIC MEASURE Percentage of Employees Trained Target: 80% Achievement: 100% Status: Above-Target Achievement			
	Number of Employees Trained	Total Number of Employees	Percentage
2015	54	54	100%
2014	55	58	95%
2013	28	52	54%

6.1.1. New Hires and Promotions

By the middle of the year, eight open positions were filled up—five through new hires and three through promotions. All appointments have been validated and approved by the Civil Service Commission, reflecting the organization's commitment to follow strict compliance with the rules on appointment.

6.2. Develop a Competency Framework

In an effort to improve recruitment, performance management, and training, and as part of our compliance requirements under the Governance Commission for GOCCs, the Regulatory Office began development of a Competency Framework that will identify the knowledge, skills, and attributes expected of all our employees in plantilla positions.

As part of this initiative, both the Regulatory Office and Corporate Office entered into a Memorandum of Agreement with the Civil Service Service Commission to deliver training services on the development of a Competency-Based Human Resource System.

STRATEGIC MEASURE

Competency Framework

Target: Draft MOA

Achievement: MOA signed between MWSS and CSC

Status: Target Achieved

(New measure — not applicable in 2013 and 2014)

6.3. Mainstreaming Gender and Development

In an effort to mainstream Gender and Development (GAD) in the workplace, efforts were made to strengthen the GAD Committee, raise awareness about gender-related issues, and build a more gender-responsive organization.

To strengthen the GAD Committee, its members attended several trainings and seminars on how conduct gender-sensitivity activities at the workplace. They also attended the 4th GAD Planning and Budgeting Forum for National Agencies, Attached Agencies, Bureaus and Government-Owned and Controlled Corporations to improve their GAD budgeting and planning functions.

To raise awareness on gender issues, the Regulatory Office joined in the month-long celebration of National Women's Month last March with its personnel attending the annual celebration at the Quezon Memorial Circle. The year's theme, "Juana Desisyon mo ay Mahalaga sa Kinabukasan ng Bawat Isa, Ikaw Na!", aims to pay tribute to women leaders by highlighting their roles in leadership, power and decision-making in an effort to break the misconception that women have no place in politics and leadership. As part of the celebration, the Regulatory Office also sent women employees holding management positions to a one-day forum on empowering women leaders in the government.

Other GAD-related accomplishments during the year include the Biggest Loser 2015 weight-loss challenge, a three-day Wellness Program that offered fun and leisure to personnel, a short documentary on The Truth About Sugar, a Bloodletting Program with the Office of the Government Corporate Counsel, Tenpin Bowling, and the Run Daddy Run father's day celebration. Briefers were also given out to personnel informing them about gender-related laws and the rights of women.

7. Quality Management System

We began reforms to make our operations more efficient, compliant and strategic. To deliver outstanding regulatory services, efforts are underway toward ISO Certification. To boost the performance of our employees, we have launched our implementation of the Strategic Performance Management System. And we continue to comply with the good governance requirements expected from us.

7.1 ISO 9001:2008 Certification

The Regulatory Office engaged a team of technical experts to develop and complete its Quality Management System (QMS) to be certified based on the criteria set by the International Organization for Standardization (ISO) 9001:2008. As a new measure introduced into the Performance Scorecard, the Regulatory Office successfully developed a draft of the QMS Manual, achieving its 2015 target and is on track to achieve its goal of ISO Certification before the end of 2016.

Through its ISO Certification, the Regulatory Office aims to develop a guidance document to identify its own quality management system and standards and nurture a culture of excellence and integrity in governance characterized by citizen-focused and well-performing organization.

STRATEGIC MEASURE

ISO Certification

Target: Draft QMS Manual

Achievement: Submitted a draft QMS Manual to the Chief Regulator

Status: Target Achieved

(New measure — not applicable in 2013 and 2014)

Good Governance Requirements

In compliance with its obligations to the Governance Commission for GOCCs (GCG) the Regulatory Office submitted its reports on the "Conditions Common to all National Government Agencies and GOCCs" and "Conditions Specific to GOCCs". These reports were submitted for validation by the concerned agencies, including the Civil Service Commission, the Department of Budget and Management, PhilGEPS and the Administrative Order no. 25 Inter Agency Task Force Secretariat. These reports also contributed to GCG's approval of the Performance Based Bonus of the Regulatory Office's officers and employees for 2015.

SPMS Implementation

To boost the performance of all its employees, the Regulatory Office plunged into the implementation of its Civil Service Commission-approved Strategic Performance Management System (SPMS). The SPMS is a results-based management framework that links individual performance to the organizational performance, making sure that employees achieve the objectives set by the organization, and that organizations achieve the goals set in its strategic plan.

All government agencies are mandated to have a CSC-approved SPMS since all performance-based promotions, scholarships, trainings, rewards and incentives shall only be based on a CSC-approved SPMS.

Finance

We continuously improve how we use our resources.

To better meet the needs of the public.

8. Optimized Use of Resources

We have taken steps so that our office operates in an efficient and effective way. By continuously improving how we use our resources, we have achieved a higher budget utilization rate than previous years, while generating savings in the course of fulfilling our regulatory functions.

8.1. Budget Utilization

STRATEGIC MEASURE			
Budget Utilization Ratio			
Target: 80%			
Achievement: 80.3%			
Status: Target Achieved			
	2015	2014	2013
Budget Utilization Ratio	80.3% (104,203 / 129,760)*	68% (164,132 / 242,232)	52% (108,982 / 211,563)

In thousands ('000.00)

On February 12, 2015, through Board Resolution No 2015-013-RO, the Board of Trustees approved the Php159.19 million Corporate Operating Budget for the Regulatory Office for the year 2015. Out of the total BOT Approved Budget, Php154.76 million was approved by the Department of Budget and Management for disbursement—Php25 million was set aside as reserved funds, leaving the Regulatory Office Php129.76 million in its actual budget.

From its actual budget, Php85.27 million was used to deliver quality regulatory services to the public. Using the prescribed formula by the Governance Commission for GOCCs (GCG), the Regulatory Office achieved an 80.3% budget utilization rate during the year. The Office also generated a savings of Php18.93 million from the ordinary course of operations.

Summary of Savings

In thousands ('000.00)

	BOT APPROVED	DBM APPROVED	UTILIZED	NOT IMPLEMENTED	SAVINGS
Personnel Services	45,206	44,779	36,557	-	8,222

MOOE						
Regular	24,846	20,839	14,620	1,096	5,123	
Professional Services	38,201	38,201	15,322	20,801	2,078	
Capital Outlay	17,673	17,673	10,743	3,660	3,270	
Debt Service	8,268	8,268	8,029	-	239	
ACTUAL FUNDS	134,194	129,760	85,271	25,557	18,932	
RESERVED FUNDS	25,000	25,000	-	-	-	
TOTAL	159,194	154,760	85,271	25,557	18,932	

The Regulatory Office

Following privatization, the Metropolitan Waterworks and Sewerage System (MWSS) created the Regulatory Office as a regulatory body, operationally independent from the Corporate Office. It was formally established in August 1997 when the Concession Agreements signed between MWSS and its two Concessionaires, Maynilad Water Services, Inc. for the West Zone and Manila Water Company, Inc. for the East Zone, took effect.

Mandated to monitor the compliance of Concessionaires with their service obligations under the Concession Agreements, the Regulatory Office is responsible for regulating all aspects of the privatized water supply and sewerage system within all of Metro Manila, the entire province of Rizal, and parts of Cavite (the cities of Cavite, Bacoor and Imus, and the towns of Kawit, Noveleta and Rosario) and Bulacan (the city of Meycauayan and the town of Obando). Its functions include reviewing, monitoring and enforcing water rates and service standards, performing regular independent audits on the performance of the Concessionaires, monitoring the condition of infrastructure assets, and handling customer complaints.

The Regulatory Office functions as a five-panel body composed of the Chief Regulator who has overall responsibility for the operations of the Office, and four other Regulators who are in charge of one of the four regulation areas—Technical Regulation, Customer Service Regulation, Financial Regulation, and Administration and Legal Affairs. With this setup, all actions and decisions by the Regulatory Office regarding substantive matters affecting the Concession Agreement require a majority vote of three members.

Our Vision

By 2020, an independent and internationally recognized Regulatory Office that protects, promotes, and fulfills the rights of the consuming public to safe, adequate, affordable, and reliable water supply and to environment-friendly sewerage system.

Our Mission

For Metro Manila and its adjacent towns, the Regulatory Office, through effective regulation, is committed to:

- Monitor compliance of the Concessionaires with contractual obligations;
- Monitor performance of the Concessionaires in providing adequate access to clean, potable, and affordable water;
- Monitor and enforce standards of service in the Concessionaires' delivery of water supply, water quality, and sewerage sanitation services, as well as ensure that such services fully cover their respective areas of operation; and
- Ensure prudence and efficiency in Concessionaires' implementation of their Business Plans, and in doing so, deliver affordable tariffs that will support the long-term water security program and environment-friendly sewerage system for all covered areas.

Our Core Values

Patriotism

We love our country; We serve to promote its common good.

Integrity and Professionalism

We work with honor and excellence.

Participatory Governance

We value the collective ideas of everyone.

Transparency and Accountability

We provide timely and accurate reports to our stakeholders.

Organizational Chart

MWSS Regulatory Office

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