



Financing Metro Manila Cities: The MWSS Regulatory Office Experience

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Presentation Outline

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Financing Metro Manila Cities



MWSS-RO

The Metropolitan Waterworks and Sewerage System (MWSS):

- ✓ Asia's Oldest Water System
- ✓ World's Largest Privatization



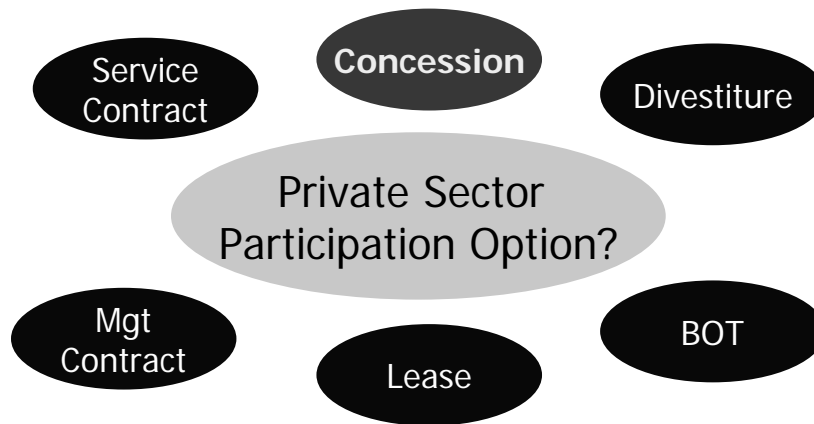
Background on MWSS PSP

PSP Objectives

- Expand service coverage
- Improve delivery of service
- Increase operating efficiency
- To relieve government of fiscal burden

Background on MWSS PSP

MWSS Chose Concession Model



Background on MWSS PSP

PSP Model

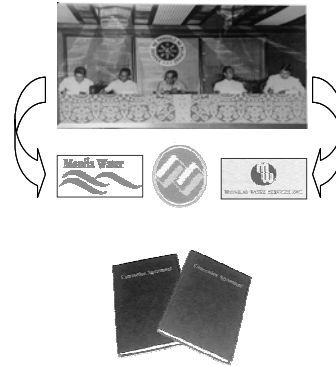
- Different bidding for two 25-year Concessions
- 2 Concessionaires for each service area
- Operators are responsible for O & M and investment
- Operators are guaranteed a "rate of return" through an Appropriate Discount Rate (ADR)
- Service coverage targets
- Tariff adjustments for inflation, currency fluctuations, extraordinary price adjustments, and rate rebasing every 5 years
- Establish regulatory office



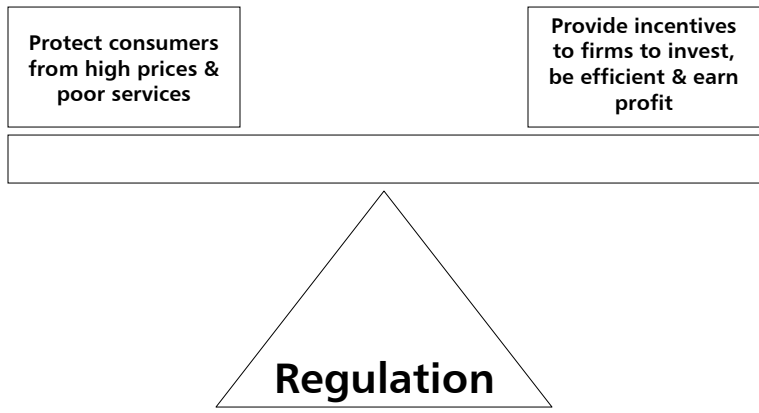
The MWSS - Regulatory Office

Creation

The Regulatory Office was created by virtue of the Concession Agreement between MWSS and the two Concessionaires: Manila Water Company Inc. (MWC) and Maynilad Water Services Inc. (MWSI).



Role of Regulation



To balance the interest of stakeholders

Functions of RO - Monitoring Functions

- ✓ Compliance with drinking water and waste water quality standards
- ✓ Water supply, sewerage and sanitation development, programs and projects vis-à-vis required population coverage and required year to attain targets
- ✓ Repair and Maintenance of Assets
- ✓ Non-revenue Water Reduction Targets
- ✓ Collection Efficiency Target
- ✓ Customer Service Standards
- ✓ Operational Cost Efficiency

Functions of RO - Determining Functions

- ✓ Extraordinary Price Adjustment (EPA)
- ✓ Rate Rebasing
- ✓ Early Termination Amounts
- ✓ Assessment of Penalties

Principles in Tariff Rate Setting of the Concession Agreement (CA)

1. Promote efficient allocation of resources

- tariff rate reflect cost of necessary investments and efficient operations to produce and deliver water
- discourage wasteful use of water

2. Ensure stable revenues

- all prudent costs of investments and efficient operations are reflected in the tariff rate.

3. Abide by the Concession Agreement

- revenue requirements should reflect allowable costs prudently and efficiently incurred

4. Use of cash flows to set tariffs

5. Use of the net present value (NPV) method

- Discount factor = $ADR = \text{Weighted Average Cost of Capital (WACC)}$
- Charging year as base year
- Future cash flows

General Water Tariff Policies and Regulation of the CA

1. The need to be firm, but fair towards the Concessionaires.
2. Protecting the short-term and long-term interests of customers.
(tariff rate = level of service)
3. Strengthening the accountability of the Concessionaires
 - Service obligations (Article 5 – “Obligations of the Concessionaires”) are expressed in term of delivery service parameters such as water quality, pressure and population connected to water supply.
 - Penalties that may be imposed on the Concessionaire should they fail to deliver the required services (Article 10.4 “Failure to meet Service Obligations”)
 - During Rate Rebasing, costs which have been determined by the RO as not being prudent and efficient shall be disallowed in re-setting of tariffs.
 - Establishing incentive mechanisms such as Key Performance Indicators (KPI) and Business Efficiency Measures (BEMs) (e.g. NRW Volume Reduction Targets)

General Water Tariff Policies and Regulation of the CA

4. Transparency in regulatory decision-making (i.e., public consultations; use of Web-site)
5. The avoidance of micro-managing the Concessionaires.
6. Flexibility in response to changing circumstances (i.e., Amendments to the Concession Agreement).
e.g., Internalizing the cost of new water resources and raw water; sewerage charging options, etc.

Lessons of the 2002 Rate Rebasing Exercise: Financing Metro Manila Cities

1. Concessionaires were able to align sustainable development thrusts with business initiatives.
2. Renewed vigor in implementing social responsibility program for the poor.
3. The use of Key Performance Indicators (KPIs) and Business Efficiency Measures (BEMs) as a tool to measure Concessionaire's performance.
 - NRW Reward/Penalty Framework
4. Rationalization of sewer and sanitation charges for the next rate rebasing exercise.
5. Pipeline projects for new water sources to serve the growing population of Metro Manila.
6. A strengthened Public-Private Partnership.