

**Philippine
Water
Partnership**



**Global Water
Partnership**
Southeast Asia

Private Sector Perspective on Regulation of Water Utilities

31 May 2006

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Subicwater History

Bidding, Negotiations & Award

- Nov 92** US vacates Naval Base, SBMA took over
- Jun 94** World Bank funded TOR for Privatization issued
- Sept 95** Winning bidder announced
- Nov 95** JV Agreement signed
- Nov 96** Franchise Agreement signed
- Apr 97** Subicwater commenced operations

Subicwater History

April 1997 to September 1998

- Apr 98** Operations commenced, started lobbying SBMA to set up Regulatory office
- Dec 97** SBMA appoints consultant to carry out Annual Review
- Mar 98** First year completed with all investment targets met
- Apr 98** Annual Review complete, tariff increases due Jun 98
- Jun 98** Estrada fires Gordon appoints Payumo – no tariff increase
- Sep 98** Payumo finally in full control

Subicwater History

October 1998 to December 2000

- Oct 98** **New Consultant appointed to validate need for tariff increases**
- Mar 99** **SBMA approved increases at half what was needed previous June**
- Apr 99** **Increases in Freeport but City Govt. blockage**
- Feb 00** **Following Court case agreed with City Govt. to set up Regulatory Board and increase tariffs**
- Jul 00** **City increase following arbitrary cut by SBMA Board**
- Nov 00** **SBMA appointed members to the Subic Bay Water Regulatory Board (SBWRB)**

Subicwater History

January 2001 to September 2003

- Jan 01** SBWRB operational and tariff petition made
- May 01** Amended petition and notice to SBMA that delays would constitute default of contract
- Oct 01** SBMA Board approved petition but delayed and with arbitrary cuts
- Nov 01** Counter call of default by SBMA
- Jun 02** Annual Review not held but SBMA agreed a 3 year plan for increases
- Mar 03** SBWRB recommended increases but SBMA deferred approval
- Sep 03** SBMA approved amended Project Agreements and tariff increases

Subicwater History

October 2003 to March 2006

- Oct 03** First year completed with all investment targets met
- Apr 04** Signed amended Franchise that gave SBWRB authority to award increases without seeking SBMA Board approval.
- Sep 04** Tariff increases according to amended Franchise
- Jan 05** Petition for increases later denied as company was debt free. Company unable to borrow pending resolution of disputes with SBMA!
- Jan 06** Petition for increases backed by funding offer from DBP
- Mar 06** Resolution of disputes with SBMA

Regulation In Practice

A Best Compromise

Subic Bay Water Regulatory Board

- Five Board Members
- Independent Chairman
- Two SBMA appointees
- Two City Appointees
- Two Executive Regulators SBMA/City

- Despite political pressures all appointees have acted fairly but pressures remain

- True benchmarking against other utilities is difficult
- Offset by Subicwater opening its books
- Danger of micro-management
- Limited attention to needs for future investments

Regulation In Practice

A Best Compromise

- Limited Benchmarking Data
- Other water districts through LWUA data
- Manila through MWSS Regulators
- Neither option provides true comparison

- Regulators rely on auditing detailed data
- Open book cost data
- Extremely detailed operational reports

- Borderline micro-management
- Open book cost data
- Extremely detailed operational reports

- Needs for future investments
- Only short term needs really considered

Regulation In The Future

WHAT IS NEEDED?

- Full removal from local political pressures
- Improved benchmarking ability
- Regulators with exposure to a variety of utilities and operating environments
- Consideration of long term investment requirements and returns on capital

HOW TO ACHIEVE THIS?

- A National Water Regulator
- Plenty of models but UK's Ofwat is good

UK REGULATION

The Principal Regulators

Ofwat

The water industry's economic regulator

Provision of a satisfactory service at a fair price

Environment Agency

Protection and enhancement of the water

Management of water resources

Drinking Water Inspectorate

Regulates the application of Water Quality Regulations

OFWAT - AIMS AND OBJECTIVES

Vision

A water industry that delivers world-class service, representing best value to customers now and in the future.

Mission

To regulate in a way that provides incentives and encourages the companies to achieve a world-class service in terms of quality and value for customers in England and Wales.

OFWAT – MAIN DUTIES

To protect the interests of consumers, wherever appropriate by promoting effective competition

To secure that the functions of each company are properly carried out and that they are able to finance their functions, in particular by securing a reasonable rate of return on their capital

WHAT IN PRACTICE DOES OFWAT DO?

- **Setting price limits at levels which enable companies to finance their functions**
- **Monitoring company performance and taking action where necessary (enforcement powers) to protect the interests of customers and other stakeholders**
- **Investigating complaints and determining disputes**
- **Using Competition Act 1998 powers and powers in Water Industry Act 1991 to facilitate competition**
- **Approving companies' charges schemes, ensuring tariffs are fair and do not unduly discriminate**
- **Working with other quality regulators**

OFWAT PRICE SETTING

The Key Issues

- **Strategic options**
Service v. price
- **Quality functions**
Required, cost, phasing
- **Future efficiency**
- **Investment necessary to maintain assets**
- **Supply/demand balance**
Efficient use of existing resources
Proven need for new resources
- **Cost of capital**
- **Incentives**

OFWAT

MONITORING PERFORMANCE: LEVELS OF SERVICE

Assessments of company performance and taking action where performance not good enough

Annual Reporting on:

DG2	inadequate pressure
DG3	supply interruptions
DG4	restrictions on water use
DG5	flooding from sewers
DG6	billing contacts
DG7	written complaints
DG8	bills for metered customers
DG9	ease of telephone contact

Plus

Consumer Council reports on softer issues: complaints; handling debt; information to customers

Also

Drinking water quality by ref. to DWI Annual Report
Environmental impact by ref. to EA performance data

OFWAT

MONITORING PERFORMANCE: LEAKAGE AND WATER EFFICIENCY

Annual reporting

- Leakage - performance
- targets
- Economic level of leakage
- Household consumption and water balance
What goes in comes out - somewhere!
- Promoting efficient use of water
- Efficiency strategies
- Active promotional measures

Thank you!!!!

Any questions?