Implementing Domestic Regulatory Reform, Public Sector Reform and Strengthening the Economic Legal Infrastructure so that Investment for the Public Benefit Increases – The Manila Water Experience

Submitted by: Manila Water Company
Implementing Domestic Regulatory Reform, Public Sector Reform and Strengthening the Economic Legal Infrastructure so that Investment for the Public Benefit Increases

The MANILA WATER EXPERIENCE

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Manila Water Company

Outline

- Public - Private Partnership
- Business Results and Benefits to the Public
- Gearing Up for Growth: Improving the Investment Environment
- Summary
Privatization Challenges

Why Private Sector Investment was Needed

“Spaghetti” & Illegal Connections
Leaks
Poor service
Lower water pressure to no water

3.1 MILLION CUSTOMERS

1997

Water Supply Availability

Source: Asian Development Bank 1996 Data

<table>
<thead>
<tr>
<th>City</th>
<th>Population (million)</th>
<th>Water Availability (hrs/day)</th>
<th>Water Coverage (% of pop)</th>
<th>Non-Revenue Water (% of prod)</th>
<th>Staff/1000 Connections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manila East (1996)</td>
<td>3.1</td>
<td>16</td>
<td>58</td>
<td>63</td>
<td>9.8</td>
</tr>
<tr>
<td>Manila East (2008)</td>
<td>5.6</td>
<td>24</td>
<td>99</td>
<td>20</td>
<td>1.6</td>
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<tr>
<td>Singapore</td>
<td>3.0</td>
<td>24</td>
<td>100</td>
<td>7</td>
<td>2.0</td>
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<tr>
<td>Hong Kong</td>
<td>6.3</td>
<td>24</td>
<td>100</td>
<td>36</td>
<td>2.8</td>
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<tr>
<td>Seoul</td>
<td>10.6</td>
<td>24</td>
<td>100</td>
<td>35</td>
<td>2.3</td>
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<tr>
<td>K. Lumpur</td>
<td>1.4</td>
<td>24</td>
<td>100</td>
<td>36</td>
<td>1.4</td>
</tr>
<tr>
<td>Bangkok</td>
<td>7.3</td>
<td>24</td>
<td>82</td>
<td>38</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: Asian Development Bank 1996 Data
Public - Private Partnership

**1997 Privatization**

**Key Features**

- Two 25-year concessions
- Operators responsible for O&M and investment
- Service coverage targets
- Regulation by contract

**The Regulatory Environment**

- Metropolitan Waterworks and Sewerage System (MWSS) Board of Trustees
- Prices, Service Standards
- Drinking Water Quality
- Concessionaires
- Department of Environment & Natural Resources (DENR)
- Pollution Control Standards
- Department of Health (DOH)
Progressive Regulatory Framework

Concession Framework

Service Obligations → Concession Agreement → Reimbursement of costs + reasonable return*

- Water Supply
- Sewerage/Sanitation
- Customer Service

Public

MWSS

Operating Expenditures
Capital Expenditures
Income taxes

TARIFF ADJUSTMENT

- Rate Rebasin
- CPI Adjustment
- Foreign Currency Differentials Adjustment
- Extraordinary Price Adjustments

Dispute Resolution - International Appeal Panel

Formula-driven Adjustments

- Tariff Adjustment
  - Rate Rebasin: 5 years
  - CPI Adjustment: Annual
  - Foreign Currency Differentials Adjustment: Quarterly
  - Extraordinary Price Adjustments: As needed
Business Results and Benefits to the Public

The Manila Water Business Model

SOCIAL/ENVIRONMENTAL OBJECTIVES

BUSINESS GOALS

PERFECT ALIGNMENT
Credible Shareholder Base

- Ayala Group (31.4%)
- United Utilities (11.6%)
- Mitsubishi Corporation (7.0%)
- IFC (6.7%)
- World Bank Group (43.3%)

Public (Listed March 2005)

Company Best Practices

Investing in Our People

1997-1998

- Trust and confidence in former MWS employees
- Establish expected behavior and conduct of business
- Define clear corporate goals and strategy

1999-2002

Organizational Capability and Transformation

2003 onwards

Leadership Development
Benefits to the Public

Impact on Quality of Life

1997
3.1 MILLION CUSTOMERS

1Q 2009
5.6 MILLION CUSTOMERS

26% → 99%

Benefits to the Public

Water for the Poor Program

Population served, millions

Additional 100K population per year

679 projects
Business Results

Laying of Mains and Distribution Lines

- Graph showing the laying of mains and distribution lines in kilometers from 1997 to 2009, with a peak of 2,984 kilometers in 2009.

Business Results

Reduction of Water Losses

- Graph showing the reduction of water losses in % Non-Revenue Water (NRW) from 1997 to 2009, with a significant drop from 63% in 1997 to 20% in 2009.
Business Results

More Water Delivered to Customers

in Million Liters per Day

1,071

1,000

900

800

700

600

500

400


Business Results

Solid Financial Performance

in billion PhP

REVENUES
US$ 191 M

EBITDA
US$ 138 M

NET INCOME
US$ 58 M

Business Results

Increasing CAPEX for Better Service

Access to Low Cost Funding

$280 million
Gearing Up for Growth: Improving the Investment Environment

Water Supply Expansion

Universal Coverage

<table>
<thead>
<tr>
<th>Historical</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 million</td>
<td>1 million population</td>
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</table>
Expand Wastewater - Environmental Services

<table>
<thead>
<tr>
<th>Year</th>
<th>San Juan River Catchment</th>
<th>Pasig River Catchment</th>
<th>Marikina River Catchment</th>
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</thead>
<tbody>
<tr>
<td>1997</td>
<td>3%</td>
<td>16%</td>
<td>100%</td>
</tr>
<tr>
<td>2008</td>
<td>3%</td>
<td>16%</td>
<td>30%</td>
</tr>
<tr>
<td>2010</td>
<td>16%</td>
<td>30%</td>
<td>3%</td>
</tr>
<tr>
<td>2018</td>
<td>100%</td>
<td>30%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Expansion Beyond the East Zone
Summary

- The Government’s political will in inviting private sector investments in the water industry is an essential first step to the provision of better services.
- A progressive regulatory framework is a good foundation for a successful private-public partnership.
- Perfect alignment of business and social objectives provides maximum value to both shareholders and the public.
- Solid financial support and a credible shareholder base are important factors to improve the investment environment.

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