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“Water is a Resource of Intergenerational Equity and challenges all of us that scarcity of this resource today and in the future will dramatically widen the gap even more between the rich and the poor; the developed and the under-developed.”

Edith Brown Weiss

Edith Brown Weiss is a Law Professor at Georgetown University, teaching international law on water resources and environment. She is a prominent personality in international environmental law and has received numerous awards and citations for her work.
This Annual Report speaks of MWSS’ modest gains and initiatives from year 2011 up to the first half of 2016.

Be clear, that the crafting of the Water Security Legacy Plan initiated all the other programs of MWSS. The spirit and soul of this plan is to regain the government’s role in being the true guardian of water security for Metro Manila. Government through MWSS must not entirely delegate its prime function and mandate to oversee the water concerns of its service area.

The plan pieced together the existing programs and the new initiatives and molded them into a comprehensive set of major legacies under seven (7) focus areas.

Sustaining The Water Security Legacy Plan became a continuing challenge over the years.

This report highlights years of various workgroups, policy development with external stakeholders, government approvals, interfacing with LGUs and other major players to make operational the Water Security Legacy program. This report will also show how multi-faceted and complex water infrastructure can be and how implementation can be paralyzed in spite of the volumes of studies prepared for decades.

2011 and 2012 were dedicated to research, feasibility studies, and government approvals. These years also introduced MWSS to deep discussions with major funding sources like ADB, the PPP center and the 2 Concessionaires.

In 2013, the MWSS Regulatory Office conducted its rate rebasing exercise with the concessionaires. This process, after months of audit and review resulted in MWSS’ decision for a rate reduction of the two concessionaires. This decision was a first in the history of MWSS. The agency likewise, remained firm in their resolution that corporate income tax is not a recoverable expense. This decision resulted in the filing of separate dispute notices by the two concessionaires.

In 2014 saw the bidding process of the three flagship infrastructure projects set in full speed. The New Centennial Water Source-Kaliwa Dam Project (NCWSP-KDP) and the Angat Water Transmission Improvement Project (AWTIP) finally got their respective NEDA Board approvals. The pre-qualification documents for the Bulacan Bulk Water Supply Project were completed, approved, and disseminated.

In 2015, the Notice of Award was finally issued to the winning bidder San Miguel – Korea Water consortium for the Bulacan Bulk Water and Supply Project. For the AWTIP, eight bidders submitted their pre-qualification bids to MWSS, which were submitted to the Asian Development Bank (ADB) for bid evaluation. The strengthening of Angat Dam and Dyke commenced this year together with the finalized funding source for its instrumentation and downstream improvements.

In 2016, MWSS awarded the AWTIP to winning bidder CMC Ravenna Cooperativa (CMC-RC) of Italy. For the BBWSP, the Concession Agreement and the MOAs with the water districts were signed on 15 January. MWSS also broke ground with the CMC-RC.

Third quarter of 2016, MWSS will release the bid documents to two pre-qualified bidders. The target award will be last month of 2016 or first quarter of 2017. Just in time for the demand-supply study projections of Metro Manila.

While the remaining initiatives related to finance, governance, and other key bubbles are incorporated in this report, MWSS’ believes that its major contribution to the consuming public is the availability and reliability of potable water through implemented infrastructure.

Transformation from a conservative agency to being a professional overseer and principal guardian of Water Security has begun. The years ahead will forge MWSS to be a world class agency admired for its technically competent infrastructure.
Water Security has a soul. It is neither a concept nor a slogan. It is a call to solid action. Just as it is infrastructure, so too is it policy. But more, much more than all that, it is passion to keep balance an intergenerational resource basic to man.

MWSS is central to Water Security in Mega Manila. It desperately tries to keep that balance, that delicate life-equilibrium that can only be achieved with heart. Agencies must not only understand but also embrace the basic truth that such imbalance fundamentally “widens the gap even more between the rich and the poor, the developed and the underdeveloped.”

Core to Water Security is environment; the reality of climate change; the impact of MWSS’ implementation or non-implementation of infrastructure; in-depth review and updating of policies and simulations used for decades; technology and methods; the synergy of agencies, both private and public. The gain must always be felt. The gain must always be fair. The gain of Water Security must benefit all.

The path to these words is not easy. Such path must be fueled to some extent, with advocacy and obsession; a delirious desire to keep that balance. The call to action can only be won through war. A battle against bureaucracy, turf, complex laws and rules that go nowhere, private gain, organizational collapse, inaction and ignorance, and the other evils that deprive a life resource to man.

This journey must be shared. This story must continue. This legacy must be its own equity.

Gerardo A.I. Esquivel
Gerardo A. I. Esquivel
(2011 to present) obtained his Bachelor of Science Degree in Architecture in 1982 from the University of the Philippines in Diliman and passed the Board Licensure Exam in 1984. He spent three years of secondary education at the Ateneo de Manila High School and graduated at Lincoln-Sudbury Regional High School in Massachusetts. He finished his primary education in Ateneo de Manila Grade School.

He is the Founding Chairman of ASEC Development & Construction Corporation, ASEC Land Incorporated, The Regalia Group Corporation, Ignajo Foundation, Incorporated, and Founding Trustee of AGAPP Foundation.

Helena Agnes S. Valderrama
(2014 to present) obtained her PhD (Business Administration) in 2006 from University of the Philippines, MA Technology Policy & Management in 1994 from University of Wollongong, NSW, Australia and Bachelor of Science in Business Administration and Accountancy (Cum Laude) in 1988 from the University of the Philippines.

Benjamin C. Yambao
(2011 to present) obtained his Masters in Business Administration (Academic Units only) from De La Salle University in 1975 and Bachelor in Accountancy from the University of the East in 1966. He was formerly the President of the Manila Banking Corporation.

Ma. Cecilia G. Soriano
(2011 to present) obtained her PhD in Economics from the University of California at Berkeley. She graduated Valedictorian and Magna cum Laude from the Ateneo de Manila University in 1979 with a B.S. in Management Engineering.

Ireneo M. Galicia
(2015 to present) obtained his Bachelor of Laws from Ateneo de Manila University in 1978 and Bachelor of Arts in Political Science from the University of the East in 1972 and admitted to the Practice of Law in the State of California in 1989.

Olivia La’O Castillo
(2015 to present) obtained her PhD in Business Administration from the University of the Philippines in 1997, Master of Business Administration in the same university in 1975 and Business Administration, Major in Social Studies in Maryknoll College in 1967.
OUR VISION

MWSS is the prime mover and guardian of water security providing adequate, safe, reliable, and affordable water and sewerage services to Metro Manila and its existing and future coverage areas, while ensuring the sustainability of its water resources and the intelligent and right use of water.

OUR MISSION

For Metro-Manila and its neighboring towns:

• Protect, secure, optimize and expand our water sources, their watersheds and infrastructure
• Provide equitable access to clean, potable and affordable water
• Aggressively increase the coverage of sewerage disposal system
• Ensure prudence and efficiency in the implementation of all our plans, including those we accomplish through our agent concessionaires, and in doing so, deliver affordable water tariffs that will support the long term water security program for Metro Manila and all covered areas

For our Employees

Inculcate respect in the meaningful roles and contributions as part of nation building to the inter-generational legacies being pursued by the Corporation
We at Metropolitan Waterworks and Sewerage System (MWSS) have carefully created a long-term Vision and Mission that will guide every aspect of our organization. This provides the framework for the goals we have established, the purpose we serve and the principles we stand for.

As the State’s chief agency on water and sewerage services, we will ensure that our concessionaires’ actions are equally guided by this Vision and Mission.

We derive our Mandate primarily from Republic Act 6234 which states the basic goals of the System and declares as its major policy the proper operation and maintenance of waterworks system to ensure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes and the proper operation and maintenance of sewerage systems in its service area which includes the whole of Metro Manila and parts of Cavite and Rizal.
Our Values

(SQuI RT)

Service Excellence
Quality
Integrity
Results-Oriented
Transparency

Our Corporate Philosophy

We pursue water security with profound respect for the environment and the resources we utilize, fully cognizant of the truth that in their continuous use lies the future of the country’s successful and sustainable economic growth and the very life and livelihood of our countrymen now and for generations to come.

Our Corporate Policy

We institute these beliefs and values in our way of life, through leading by example and by making them an integral part of our performance management system.
On 19 June 1971, Republic Act 6234 was enacted. It dissolved the National Waterworks and Sewerage System (NAWASA) and created in its place the Metropolitan Waterworks and Sewerage System (MWSS). MWSS was thus given the mandate to ensure an uninterrupted and adequate supply and distribution of potable water at just and equitable rates. The proper operation and maintenance of sewerage systems is likewise part of its mandate.

As a result of the National Water Crisis Act of 1995, in 1997, the operation of the MWSS was privatized through public bidding after government realized that the private sector is better suited to continue its operations. Manila Water Corporation, Inc. and Maynilad Water Services Inc. separately won the bid for an initial 25-year concession period which was later extended to another 15 years.
Republic Act No. 6234 or the MWSS Charter

MWSS was created under Republic Act 6234, which was approved on 19 June 1971. Its main objective is to ensure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes to its consumers at just and equitable rates. It also aims to provide sewerage and sanitation services to the public. MWSS owns and has jurisdiction over all waterworks and sewerage system of all the cities and municipalities of Metro Manila, and some municipalities of Cavite, Rizal and Bulacan.

These are the major powers and functions of MWSS in the Republic Act No. 6234.

- To construct, maintain, and operate dams, reservoirs, conduits, aqueducts, tunnels, purification plants, water mains, pipes, fire hydrants, pumping stations, machineries and other waterworks for the purpose of supplying water to the inhabitants of its territory, for domestic and other purposes; and to purify, regulate and control the use, as well as prevent the wastage of water;
- To construct, maintain, and operate such sanitary sewerages as may be necessary for the proper sanitation and other uses of the cities and towns comprising the System;
- To fix periodically water rates and sewerage service fees as the System may deem just and equitable in accordance with the standards outlined in Section 12 of this Act;
- To construct, develop, maintain and operate such artesian wells and springs as may be needed in its operation within its territory;
- To acquire, purchase, hold, transfer, sell, lease, rent, mortgage, encumber, and otherwise dispose of real and personal property, including rights and franchises, consistent with the purpose for which the System is created and reasonably required for the transaction of the lawful business of the same;
- To approve, regulate, and supervise the establishment, operation and maintenance of waterworks and deep wells within its jurisdiction operated for commercial, industrial and governmental purposes and to fix just and equitable rates or fees that may be charged to customers thereof;

Republic Act No. 8041 or The Water Crisis Act

Republic Act No. 8041 or the National Water Crisis Act of 1995 was promulgated to adopt urgent and effective measures to address the nationwide water crisis which adversely affected the health and well-being of population, food production and industrialization process.

The Act paved the way for the privatization of MWSS operations through Executive Order No. 311. The main reasons for privatization are the following:

- **Poor Coverage** - MWSS was able to supply water to only 69% of its service area.
- **Inefficient Service** - Water availability was intermittent, averaging only 16 hours per day, and water pressure was uncomfortably low.
- **Highest Non-Revenue Water (NRW) in Asia** - NRW of MWSS at the time was nearly twice that of developed countries. NRW refers to the unbilled or lost portion of water produced or supplied. This is caused mainly by meter tampering, illegal connections, pipeline leaks, and the illegal use of fire hydrants.
- **Low Sewerage Coverage** - Approximately only 8% of the total service population and less than 7% of households in the service area were covered. Sewerage facilities could be found only in some areas in Manila and Makati, with most establishments having to use either their own or communal septic tanks.
- **Tedious Procurement Procedures** - Procurement procedures tended to be very rigid and involved many sequential processes. This oftentimes resulted in inefficiency and delays, both in terms of acquisition of equipment and in the implementation of projects.

In essence, privatization aimed to transfer financial burden to the private sector, improve service standards, increase operational efficiency and minimize tariff impact.
The Angat Dam/Reservoir is the main water source for the people of Mega Manila. The Angat Watershed provides the bulk of the water to the Angat Reservoir. The waters from the Umiray River provide additional water to Angat Dam through the Umiray-Angat Transbasin Tunnel (UATT). Conveyance is done basically by gravity from the source, into the plant and out into the distribution system.

From Angat, water is funneled directly to Ipo Dam. It then flows a distance of 6.4 kilometers to the three basins in Bicti. The basins control the water flowing from it to the six aqueducts each about 16 kilometers long all going to the La Mesa Dam through the La Mesa Portal.

From La Mesa Portal, 60% of the water goes to the nearby La Mesa Treatment Plants while 40% travels down a distance of 6.8 kilometers to the Balara Treatment Plant.

The Balara and La Mesa Treatment Plants process water from its raw state to clean and potable water through a series of screening and cleansing process. The Balara Treatment Plant has a full production capacity of 1,600 mld and supplies more than six million people throughout the metropolis. The La Mesa Water Treatment Plant processes 2,400 mld of raw water.

Both plants were built with least cost technological package as they have very minimal electromechanical equipment and rely mostly on hydraulic properties of water to backwash their filters.

When both Balara and La Mesa Treatment Plants are in operation, the total processing capacity is about 4,000 mld. The La Mesa Water Treatment Plant serves the West Zone of the concession area (Maynilad concession), while the Balara Water Treatment Plant supplies the East Zone of the concession area (Manila Water concession).
The major final output of MWSS under the WSL is anchored on the hierarchical structure of national and international development goals. The three flagship projects of MWSS - the New Water Centennial Water Supply Project (NCWSP), Bulacan Bulk Water Supply Project (BBWSP), and the Angat Water Transmission Improvement Program (AWTIP) – and the initiatives of the concessionaires in the area of sewerage and sanitation services are all in pursuit of the hierarchical goals in international, Philippine, and sectoral goals.

MWSS recognizes the need to work in partnership with international and local stakeholders. The general public will benefit from such synergy in compliance to agreed standards and targets.
The Water Security Plan

Water appears to be in endless supply that this life resource is usually taken for granted. However, given the realities of population growth, aging water and sewerage infrastructure, vulnerability to natural calamities and climate change, watershed degradation and environmental abuse, reckless water usage and conservation inaction, flooding and other effects of water misuse, the scenario of a Metro Manila-wide water crisis remains a threat. And a solution both short and long term is imperative. Especially for MWSS' service area that contributes close to 40% of GDP.

In 2011, MWSS took cognizance of the above and laid down the foundation for a roadmap, a long-term master plan to water sustainability, the Water Security Legacy Plan. The Plan put together all the necessary elements to realize the agency’s general objectives on water. There are 7 separate focus areas of policy and implementation. While specific and defined in scope, these seven overlapping bubbles must always be knitted together and must remain inseparable.

One without the other is aimless

Legacy 1: Water Resources and Infrastructure Development, Management and Protection
- To ensure Concessionaires’ compliance to the original Concession Agreement (1997-2022) and the Concession Agreement’s Term Extension (2022-2037) on water resources and infrastructure development, MWSS will a) Ensure the delivery of new water sources that satisfy the projected water demand from year 2011 and beyond; b) Optimize existing facilities and improve on water resources management by way of policy and infrastructure.

Legacy 2: Water Distribution Efficiency
- To ensure Concessionaires’ compliance to the original Concession Agreement (1997-2022) and the Concession Agreement’s Term Extension (2022-2037) on water supply connection

Legacy 3: Sewerage and Sanitation Compliance
- To ensure Concessionaires’ compliance to the original Concession Agreement (1997-2022) and the Concession Agreement’s Term Extension (2022-2037) on sewerage and sanitation services

Legacy 4: Water Rates Review and Rationalization
- a) To protect the consuming public as the ultimate benefactor of MWSS; b) To ensure prudence and efficiency of Concessionaires’ Business Plans; c) To value and recognize the business sustainability of the Concessionaires

Legacy 5: Organizational Excellence
- a) To promote a culture of excellence and accountability within the agency and ensure the employees’ general well-being; b) To elevate MWSS to international professional standards in governance, finance, engineering, and guiding principles and mandates of Government Owned and Controlled Corporations

Legacy 6: Partnership Building and Development
- a) To strengthen roles and cooperation between MWSS and its Concessionaires; b) To develop and expand new partnerships in delivering the key elements of the Water Security Legacy Program

Legacy 7: Communications and Knowledge Management
- To develop a deep respect, appreciation, and intelligent use for water and water resources; b) To make MWSS and its partners respected names in the delivery of a valuable life resource; c) To use available policy, methodology and technology in expanding the roles of all stakeholders for water security of Metro Manila
To ensure Concessionaires’ compliance to the original Concession Agreement (1997-2022) and the Concession Agreement’s Term Extension (2022-2037) on water resources and infrastructure development, MWSS will a) Ensure the delivery of new water sources that satisfy the projected water demand from year 2011 and beyond; b) Optimize existing facilities and improve on water resources management by way of policy and infrastructure

The sustainability of water is one of the principal involvements of MWSS. It is clear in the MWSS’ Charter that “...the proper operation and maintenance of waterworks system to ensure an uninterrupted and adequate water supply is the responsibility of the State” and that “the construction of infrastructure for the purpose of supplying water to the inhabitants of its territory is MWSS’ responsibility.”

This mandate entails complex infrastructure development, management and protection to optimize the water trail from source to tap. Watersheds and rivers need protection. Old dams need strengthening. New water sources need to be developed. Old conveyance systems need retrofitting. New tunnels need to be built. Reservoirs need world-class instrumentation. Downstream facilities need to be upgraded. Treatment and distribution infrastructure need to be monitored. Finally, water rights need to be secured.

The mandate is never ending. It evolves through time with technology, sophisticated software, demand cycles, climate change and other determinants in water resources and infrastructure management, development, and protection.

But, the years ahead will present an opportunity to “future proof” MWSS’ gains.
Feature Article:

Addressing the Social Issues: Pre-requisite to Project Success of a Dam Project (NCWSP-KDP)

The plight of affected inhabitants of MWSS’ dam infrastructure projects is an important consideration in planning these projects. These are the people whose lives will be affected directly or indirectly by the activities surrounding the construction of the dam – directly for those whose dwellings are situated in the area planned for submersion; and indirectly, for those whose homes might not be located in the area for submersion but whose livelihoods might nonetheless be disrupted by the construction activities during project implementation.

This is a very special concern of project proponents and stakeholders including local government units where the project is situated. The local government units (LGUs) would like to ensure and have the confidence that all possible ramifications of the project are appropriately addressed including the plight of their affected constituents.

The failure of the Laiban Dam project - which began in the 1980s - to move forward was in large part attributed to the social problems associated with having to disrupt people’s lives including moving people from their original place of dwellings to give way to the dam construction.

This is the reason why more attention and detail are being given to these social issues in the preparation/bidding activity for the Kaliwa Dam project officially known as the New Centennial Water Source – Kaliwa Dam Project (NCWS-KDP). The NCWS-KDP is conceived to be a preparatory project that will pave the way for and eventually culminate into the Laiban project.

Land Acquisition and Resettlement Program (LARP)

MWSS has prepared a Land Acquisition and Resettlement Program (LARP) for this project which would provide the amelioration and recovery measures for those who will be affected, as follows:

a. Resettlement and replacement cost for affected households, government structures and services

b. Payment for agricultural tree and crop losses

c. Payment for Livelihood losses

In addition, the government will acquire private land within the Kaliwa Reservoir and conveyance structure (tunnel and pipes) invoking the power of eminent domain if necessary. For Barangay Daraitan, sanitation will be addressed although it is not due for inundation.

There are 424 families that will be affected by the project with 233 of them coming from Barangay Pagsangahan of General Quezon and 191 from Barangay Magsaysay of General Nakar, Quezon.
**NCIP Involvement / Participation**

The Dumagats and Remontados are the Indigenous People affected by the project as they reside in the both direct and indirect impact areas of the dam construction projects. The law, particularly the Indigenous People Reform Act (IPRA), protects their interests during these occasions. Moreover, a governmental body under the Office of the President called the National Commission on Indigenous People (NCIP) was created specifically to ensure their protection. It is through this body that the MWSS has been in continuous dialogue with the IPs regarding just compensation for damages to livelihood and shelter under the regulatory framework of the Free Prior Informed Consent (FPIC) process.

**FPIC Process.** Free prior and informed consent (FPIC) is the principle that a community has the right to give or withhold its consent to proposed projects that may affect the lands they customarily own, occupy or use.

For the project, the process starts with the submission of Application for Issuance of Certification by MWSS to NCIP. The list of requirements for issuance includes the project description, preliminary assessment of the likely economic, social, cultural and environmental effects including potential risks and mitigating measures and profile of the applicant.

The Field-Based Investigation follows where the project is introduced to the IPs and their concerns gathered and validated. The Financial Plan and the MOA MWSS with NCIP are prepared and finalized in this phase.

The last phase is the set of activities leading to the issuance of Certificate of Pre-Condition by the IPs to MWSS. The dialogues with the IPs are continued here especially on the effects of dislocation and solutions. The MOA with the IPs is the final pre-condition before the Certificate of Pre-condition (i.e., Resolution of Consent) is issued by the IPs to MWSS. The MOA contains the compensation package, among other things.

As of December 2015, the project has gone as far as the submission of the Field-based Investigation Report by NCIP to MWSS.

### Local Government Endorsements

Part of the approval process is the clearance from the local government unit/s where the project is located. The Regional Development Council (RDC) of the Region where the project is located is on top of the approval process. For NCWSP, this is Region IV-A. The RDC approval itself is subject to the approvals from the Provincial Development Councils (PDC) of Rizal and Quezon which in turn is conditional upon the endorsements of the municipal governments.

**LGU Requests.** Securing the LGU endorsements is in itself a challenge as there is a host of requests for MWSS that were advanced by the LGUs. The wish list can be divided into several categories according to the nature of the requests such as the following: a) LGU’s share on gross sales; b) Development assistance; c) Road construction; d) Infrastructure projects; e) Flood control and early warning system; f) employment and source of aggregates during construction; g) relocation site; h) assistance to protected families; i) royalty; j) assistance to indigenous people; k) other requests.

**MWSS Responses.** Among the top requests is LGU’s share on gross assets which the Province of Quezon (PGQ), Municipality of General Nakar, Quezon and Brgy. Pagsangahan of General Nakar are all asking for in various modes. The PGQ also wants some development assistance for the protection, preservation,
management and utilization of all water resources in Quezon. For the above two requests, the MWSS will require a submission of Program of Work for which the funds will be used that will benefit the affected LGU’s constituents.

Some of the proposed solutions of MWSS to these requests are already contained in the LARP like the requests on relocation site, assistance to project-affected families, and assistance to indigenous people.

For the requests on road construction, MWSS proposes to include this in the Proponent’s obligation or through the DPWH program. The request for flood control and early warning system is proposed by MWSS to be included in the Project’s scope of work. The request for hiring local persons for the project will likewise be endorsed to the Proponent. The requests for infrastructure projects will be endorsed to the national government or through CPF funding. Meanwhile, the MWSS denied the request of PGQ for royalty fees on the use of natural resources in Quezon, adhering to a decision by the Regional Trial Court on the matter.

Status of LGU Endorsements. The project received conditional approval from RDC IV-A on 27 March 2014, subject to two conditions: a) submission of endorsements from the Provincial Development Council of the provinces of Rizal and Quezon; and b) LGU-accepted draft MOA specifying the assistance and benefits to be provided to the affected LGUs. So far, only the Municipal Development Councils (MDC) of Baras and Teresa gave their full endorsement/approval of the project. The rest of the municipalities/cities have yet to give their full endorsement following the provision of all their demands.

Other Requirements

In addition, the MWSS is requested to do the following: (a) Secure i) land use permits since the project are classified as a forest land; and ii) Protected Area Management en banc approval; (b) Consider the worst cases of flooding, earthquake and other disasters, both natural and man-made, in the project’s detailed engineering design; and (c) Provide the Regional Disaster Risk Reduction and Management Council IV-A with the Project’s Disaster Action Plan.

In response to the above requirements, the MWSS conducted a joint ground-validation survey (MWSS and PAMB) of the watershed and location of the project on April 11-18, 2016. The noted scenarios for the disaster will be considered in the Detailed Engineering Design while the Emergency Action Plan (EAP) is still being prepared.
Bulacan Bulk Water Supply Project

Description

The project involves the supply of treated bulk water to the 24 municipalities of Bulacan to meet growing water demand – expanding service area coverage and increasing number of households served.

The project is the culmination of a series of events starting from the receipt by the province of Bulacan of 230 MLD or 2.7 cms of water allocation from MWSS’ Umiray-Angat Transbasin Project in 1992. A series of MOUs among MWSS, LWUA and the province of Bulacan ensued and in 7 April 1993 the President approved the inclusion of Bulacan among MWSS’ service. The implementation of the project was formalized via an MOU among the three bodies on July 2012 formalized in Malacañang

Winning bidder Luzon Clean Water Development Corporation will undertake the financing, detailed design, construction, operation and maintenance of conveyance pipelines, water treatment facilities and water source over a 30-year concession period. Water rights for use to supply water will come from the 2.6 CMS allocated to MWSS and the 1.9 CMS from PGB for a total of 4.5 CMS. There are three (3) stages of the project:

<table>
<thead>
<tr>
<th>Project Stage</th>
<th>Construction Period</th>
<th>Municipalities/Cities Served</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Water Source: Angat Dam, 4.5 cms)</td>
<td>18 months</td>
<td>6 (Meycauayan, Obando, Marilao, Balagtas, Bocaue, SJDM)</td>
</tr>
<tr>
<td>2 (Water Source: Angat Dam, 4.5 cms)</td>
<td>24 months</td>
<td>7 (Bulakan, Calumpit, Guiguinto, Sta. Maria, Malolos, Paombong, Plaridel)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>3 a (Angat River at Bustos &amp; other sources, 1 cms)</td>
<td></td>
<td>11 (Angat, Baliwag, Bustos, Pandi, Norzagaray, San Miguel, Dona Remedios Trinidad, Hagonoy, San Ildefonso, San Rafael, Pulilan)</td>
</tr>
<tr>
<td>3b (Water Source: Pampanga &amp; Angat River at Calumpit; 6cms)</td>
<td></td>
<td>All 13 towns in stages 1 &amp; 2</td>
</tr>
<tr>
<td>3c (Other sources identified by proponent)</td>
<td></td>
<td>All 11 towns in stage 3a</td>
</tr>
</tbody>
</table>

Approved budget of the contract is P24.435B thru Public-Private Partnership competitive bidding
Historical Accomplishments:

2012:

- March 8, 2012: MWSS Board issued Resolution No. 2012-024, (a) Declaring Bulacan Province as a separate concession area, to be called “North Concession, and (b) authorizing management to bid out its operation under a public private partnership arrangement;
- July 10, 2012: PDMF approval of funding support for the TAS
- July 12, 2012: Signing of the MOA between MWSS and PGB in Malacanang, for the implementation of the project; Formation of Joint Stakeholders Proj Team (JSPT) composed of MWSS, LWUA Assoc of Bulacan Water districts, PPP Center completed
- Sept 20, 2012: BOT approval of TOR for Transaction Advisory Services
- Oct 29, 2012: Memorandum from Exec. Secretary Paquito Ochoa (reply to the Sept 2012 joint letter of MWSS & PGB), informing that the approval made by former CPLC Antonio Carpio, including Bulacan in the service area of MWSS, is valid.
- Nov 8, 2012: BOT approval of the original cost estimates of US$1,207,048 as suggested by PPP Center

2013:

- Completed the Feasibility Study in September 2013.
- Submitted to DENR-EMB the Environmental Impact Statement for evaluation and requested for the issuance of ECC/Certificate of Non-Coverage.
- Approved by NEDA-ICC on 04 October 2013, and by the NEDA Board on 21 November 2013;
- Coordinated with NHA re: Purchase of NHA Lot in San Jose Del Monte City for the Water Treatment Plant.
- Obtained full support of LWUA on the project
- Presented the draft Water Purchase Agreement to the Water Districts
- Completed the review of draft PQ Docs.

2014:

- Secured NEDA Board (chaired by the President) approval on the MWSS’ request for extension of 30 days to publish the “Invitation To Pre-qualify and Bid”. The Project, which was approved by the NEDA Board on 21 November 2013, is required to be advertised for bidding within 6 months from NEDA Board approval.
- Completed the preparation of pre-qualification documents and the same was approved by the MWSS Board on 10 June 2014.
- Completed the signing of MOU between MWSS and the Water Districts.
- Advertised in newspapers of general circulations the “Invitation To Pre-Qualify and Bid” on June 20, 27, and July 4, 2014, and conducted Pre-Qualification Conference on 17 July 2014.
- Five (5) out of the fifteen (15) Bidders who bought the Pre-qualification documents submitted their respective bids on 20 October 2014.
- Completed the pre-qualification process on 10 November 2014, resulting in five (5) pre-qualified Bidders which were notified of their pre-qualifying on 19 November 2014.
- Preparation and review of bid documents including the Water Purchase Agreement (WPA).

2015:

- Completed the preparation of bidding documents (Water Purchase Agreement included) and this was issued to the five (5) pre-qualified bidders;
- Bid submission on 30 October 2015 wherein three (3) out of the five (5) pre-qualified Bidders submitted their respective bids. These 3 Bidders passed the technical evaluation hence their respective financial bid were opened on 24 November 2015.
- Issued on 07 December 2015 the Notice of Award to the winning Bidder, Joint Venture of San Miguel Holdings & Korea Water Resources Corporation;
- Compliance by the winning Bidder on the post-award requirements.
2016

- The Project was awarded to the joint venture of San Miguel Holdings and Korea Water Resources Corporation (now registered as Luzon Clean Water Development Corp) on 07 Dec 2015.
- Signing of Concession Agreement & MOAs with the Water Districts was done on 15 Jan 2016 at Malolos City, attended by the President.
- Ground-breaking was held on 15 April 2016 attended by the President.
  - Detailed Engineering Design (DED) completed
  - Financial close completed.
  - Construction of Water Treatment Plant is on-going (5% physical accomplishment)

New Centennial Water Supply Project

Description

The New Centennial Water Source – Kaliwa Dam Project (NCWS-KDP, the “Project”) is designed to ensure and increase raw water supply to meet the growing water demand. It also reduces the total dependence on the Angat Dam for water supply.

The Project involves the construction of a dam with a discharge capacity of 600 million liters per day (600 mld) and a 27.70 kilometers raw water conveyance tunnel with a design capacity of 2.400 mld, with a total Project Cost of PhP 18.724 Billion. The proposed dam is located in Barangay Pagsangahan, General Nakar, Quezon and in Barangay Magsaysay, Infanta, Quezon. The raw water conveyance tunnel traverses the mountain areas of the towns of Tanay, Baras, Teresa and Antipolo in the Province of Rizal.

The construction of water treatment plants including the Operation and Maintenance of the whole water system (from dam to treatment plant) is the responsibility of the Concessionaires.

The Project was originally proposed as an integrated dam system of Laiban Dam with hydropower component and Kaliwa Dam. However, the MWSS, upon the recommendation of NEDA, opted to undertake Kaliwa Dam including the raw water conveyance as the first phase of the entire NCWSP, through a Public-Private Partnership (PPP) arrangement under a Design and Build scheme.

Approved budget for the contract is P26B and procurement is originally set thru Public-Private Partnership thru competitive bidding.

Accomplishments:

2013:

- Completed Feasibility Study in September 2013.
- Submitted EIS documents to DENR EMB for review
- Validated the NCIP surveys necessary in securing Pre Condition Certificate
- Discussed/Dialogue with LGUs regarding the Land Acquisition and Resettlement Plan (LARP)
- Submitted the Project to NEDA for approval by the NEDA-ICC and the NEDA Board.
2014:
- Secured on 27 March 2014 the conditional endorsement of the Project from the Regional Development Council (RDC) of Region IV-A. Also includes the following:
  - Secured endorsement of the Project from Barangay Pagsangahan, General Nakar, Quezon, on 14 August 2014.
  - Secured endorsement of the Project from the Municipal Development Council of General Nakar, Quezon, on 06 August 2014.
- NEDA Board approval on 29 May 2014.
- Presented the Project to the Municipal Development Council (MDC) of Infanta, Quezon, with an end in view of securing the endorsement of the Project by the MDC, Antipolo.
- Advertised in newspapers of general circulations the “Invitation To Bid and Pre-Qualify” on October 3, 10, 17 and 31, 2014, and conducted Pre-Qualification Conference on 04 November 2014. Eight (3) Bidders bought the Pre-qualification documents.

2015:
- Sept 2015 – DPWH involvement as co-implementor began as approved by NEDA because of national sovereign guarantee; DPWH will sit in the BAC Main Committee and the TWG
  a. DPWH-MWSS Approved Project Cost – 17 Feb 2016 to 6 April 2016
  b. SPBAC Re-constitution (DPWH & MWSS BOT Approval – 17 Feb 2016 to 1 April 6, 2016
- Notification to Pre-Qualified Bidders done on Nov 16, 2015 – 2 prequalified bidders are Abeima and SMC Holdings

2016:
- Continuous coordination with DPWH relative to the signing of MOA for the joint implementation of the Project.
- Bidding documents were already completed but still to be approved by the Joint Special Bids and Awards Committee (JSBAC) and the new MWSS Board (still to be appointed by the President as of end of 2016).
- On-going coordination with the other LGUs relative to their endorsements of the Project, including with the NCIP & PAMB for the required clearance.
Angat Dam & Dyke Strengthening Project

Background:

The PHIVOLCS (Philippine Institute of Volcanology and Seismology) announced that the West Valley Fault (WVF), which runs through the Central Metro Manila Area, is potentially active, and that a splay/local fault runs 200 meters east of the Angat Main Dyke and any movement of the WVF may affect the local fault.

With the PHIVOLCS pronouncement and the effect of climate change, a Memorandum of Agreement (MOA) was signed on October 2011 by and amongst MWSS, PSALM, NPC, NIA, PHIVOLCS, PAGASA, OCD and the Province of Bulacan with the objective of identifying, prioritizing and implementing a program/project that will ensure the safety and reliability of the Angat Dam and Dyke from geological and hydro-meteorological hazards.

Immediately after the MOA signing, a Safety Study was undertaken and the results of the study recommended, among others, the strengthening of the Angat Dam and Dyke and the construction of an auxiliary spillway to accommodate the updated Probable Maximum Flood (PMF) of 12,000 cms. Thus, the Angat Dam and Dyke Strengthening Project (ADDSP, the “Project”) was conceived.

Description:

The Project involves the strengthening of the Angat Dam and Dyke in order to ensure its stability and safety to withstand the potential risk posed by possible seismic activity associated with the West Valley Fault. The Project, with a total cost of PhP 5,719 Billion, is located in Norzagaray, Bulacan, the location of the Angat Dam & Dyke. It has four components as per NEDA Board approval of 4 Sept 2012:

<table>
<thead>
<tr>
<th>Contract Package</th>
<th>Description</th>
<th>Cost (MPesos)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strengthening Works and Auxiliary Spillway</td>
<td>5017.3</td>
</tr>
<tr>
<td>2</td>
<td>Instrumentation (Flood Forecasting and Warning System on Dam Operation)</td>
<td>260.91</td>
</tr>
<tr>
<td>3</td>
<td>Consulting Services (as owner’s representative)</td>
<td>149.30</td>
</tr>
<tr>
<td>4</td>
<td>Flood Control Protection Works (downstream of Angat; part of PGB’s Angat River Downstream Project (ARDIS))</td>
<td>292.39</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>5,719.9</strong></td>
</tr>
</tbody>
</table>

The project was originally conceived after a Phivolcs study concluded that the West Valley Fault (WVF), which runs through the Central Metro Manila Area, is potentially active, and that a splay/local fault runs 200 meters east of the Angat Main Dyke and any movement of the WVF may affect the local fault.
A Memorandum of Agreement (MOA), hence, was signed on October 2011 by and amongst MWSS, PSALM, NPC, NIA, PHIVOLCS, PAGASA, OCD and the Province of Bulacan with the objective of identifying, prioritizing and implementing a program/project that will ensure the safety and reliability of the Angat Dam and Dyke from geological and hydro-meteorological hazards. However, after the Supreme Court decision awarding the ownership of the AHEPP to the K-Water, the latter became contractually obligated to fund and undertake the rehabilitation of the Angat Dam. What remained of government obligation were packages 2 and 4 of the project. By virtue of a prior approval of NEDA and DBM, MWSS via separate MOAs, transferred the funds intended for the two packages to NPC and PGB as the latter two will implement the packages.

**Accomplishments/Status**

**2013**

- Upon approval of the Project by the NEDA Board on 04 September 2012, bidding documents were prepared enabling the Project to be ready for bidding. However, in light of the Supreme Court decision on 09 October 2012 declaring the award of the Angat Hydro-Electric Power Plant (AHEPP) to Korea Water Resources Corporation (K-Water) as valid and legal, the implementation of the ADDSP was then shifted from National Government/MWSS to K-Water.

- After the issuance of the said Supreme Court decision, the MWSS initiated discussion with K-Water, the new AHEPP owner, regarding the implementation of the Project, and as embodied in Section IV of the Inter-Agency MOA, the new AHEPP owner will have to collaborate with the agencies concerned consistent with its obligations under the Mandatory Rehabilitation Activity pursuant to the Operation and Maintenance Agreement. Under the terms of its contract, K-Water is obligated to undertake mandatory rehabilitation of Angat Dam.

- In the MWSS’ letter to K-Water (now known as Angat Hydropower Corporation (AHC)), a consortium of Korean Water and San Miguel Corporation) dated 07 August 2014, the latter confirmed its obligation to undertake the strengthening of the Angat Dam. The other components of ADDSP (Instrumentation and Flood Control Protection Works) remains to be the responsibility of the National Government through the National Power Corporation (NPC) for the Instrumentation (Flood Forecasting and Warning System on Dam Operation) and the Provincial Government of Bulacan for the Flood Control Protection Works (downstream of Angat Dam).

**2014**

- After the issuance of the said Supreme Court decision, the MWSS initiated discussion with K-Water, the new AHEPP owner, regarding the implementation of the Project, and as embodied in Section IV of the Inter-Agency MOA, the new AHEPP owner will have to collaborate with the agencies concerned consistent with its obligations under the Mandatory Rehabilitation Activity pursuant to the Operation and Maintenance Agreement. Under the terms of its contract, K-Water is obligated to undertake mandatory rehabilitation of Angat Dam.
- In light of the above, MWSS then requested DBM to release the funding for the other components of ADDSP which are the Instrumentation and Flood Control Protection Works, in the total amount of PhP 553.30 Million

- AHC has engaged the services of consulting firm Poyry Energy Limited to conduct review and assessment of the previous study and to prepare the rehabilitation plan. The consulting services started on 01 October 2014.

- On 01 November 2014, the AHC officially took over as owner of AHEPP.

2015

- Completed the Detailed Engineering Design (DED) done by consultant Poyry (which was engaged by AHC)

- Ground-breaking ceremony was held on 22 July 2015 attended by the President.

- Secured from DBM the release of PhP 553.30 Million intended to finance contract package 2 (Angat Dam instrumentation) and contract package 4 (flood control protection works), of which these works remain to be the responsibility of the government. The MWSS decided to transfer the funds directly to the agency mandated to implement contract packages 2 & 4, which are the NPC and the PGB, respectively, as allowed by the DBM and NEDA, subject to the execution of MOA.

- Pre-construction works by AHC being done including the processing of the required Environmental Compliance Certificate (ECC).

2016

- Since contract packages 2 & 4 of ADDSP remains to be the responsibility of the government, the MWSS, with the approval of DBM and NEDA, decided to transfer the funds directly to the agencies mandated to implement contract packages 2 & 4, which are the NPC and the PGB, respectively, subject to the execution of MOA.

  a) MOA signing between MWSS & Provincial Govt of Bulacan (PGB) on 22 March 2016 for the transfer of fund to PGB in the amount of P267M (final figure after review of DPWH) intended to finance portion of works under the Angat River Downstream Improvement Project (ARDIP) of Bulacan.

  b) MOA signing between MWSS & National Power Corporation (NPC) on 03 May 2016 for the transfer of fund in the amount of P237.16M (final figure after review of DPWH) intended to finance the Angat Dam Instrumentation.

Rehabilitation, Operation and Maintenance of AHEPP Auxiliary Turbines 4 and 5

Description:

The Project involves the opportunity to optimize the benefit from the MWSS-owned auxiliary turbines 4 and 5 (AN-4 & AN-5) installed in the Angat Hydro-Electric Power Plant (AHEPP), which is located in Norzagaray, Bulacan, by developing the hydropower generation component, a “by-product” of water releases. However, since power generation is not the core competency of MWSS and it does not have the organization and expertise to operate and maintain a power plant, MWSS needs to enter into an O&M Agreement with the private sector through Public-Private Partnership (PPP) scheme for the rehabilitation, operation and maintenance of these turbines.

The Project aims to extend the economic life of AN-4 and AN-5 by another 30 years as well as increase energy output and load capacity to 60 percent through the replacement of existing runners and electro-mechanical equipment. In the process, the Project will also enable MWSS to earn additional revenue through the concession payments to be made by the private proponent.
The Project has a total project cost PhP 1.155 Billion

As of 2016, after going through NEDA Board clearance, MWSS’s direction is to directly negotiate with AHC, the new owners of Angat Dam. The only remaining issue is whether or not to adopt the Joint Venture Guidelines of the BOT Law, a question it lodged to OGCC for legal opinion.

Accomplishments:

2012

- The Project was approved by NEDA Board on 29 November 2012. Earlier in the month, the project was approved by NEDA-ICCC
- Consultant/Transaction Advisor (REBEL) has been engaged to conduct Feasibility Study (FS) and prepare bid docs and facilitate the procurement of a contractor through the PPP Center.
- TA submitted partial output (Proj FS) to NEDA-ICC on July 2012
- MWSS assessment of implication to the project of the SC award to K Water. Water releases to be discussed between MWSS and K-Water (11/28/12)

2013

- Project was bidded out but there was failure of bidding
- While preparatory works and documentation were done for the re-bidding of the Project, activities were hampered by the Supreme Court decision declaring the award of AHEPP to K-Water as valid and legal. Hence, the MWSS initiated discussion with K-Water pursuant to the OGCC Opinion that MWSS may lawfully negotiate with K-Water (OGCC Opinion No. 269 dated 17 Dec 2013).

2014

- On January 2014, authority was granted to the Administrator to negotiate with K-Water pursuant to OGCC Opinion No. 269.
- Secured “no Objection” from DPWH Secretary Singson and DOE Secretary Petilla on the proposed negotiation by MWSS with K-Water.
- Relative to the proposed negotiation with K-Water, an Inter-Agency Technical Working Group (IA-TWG) was created on February 2014 comprising of representatives from MWSS, NPC, DOE and DOF, that formulated the minimum Concession fee and other parameters for the direct negotiation.
The IA-TWG completed its formulation including financial model and submitted the same to the MWSS Board on 15 October 2014. The matter was presented to the Board on 27 November 2014.

Secured OGCC Opinion on 01 Dec 2014 authorizing MWSS to assign PSALM to negotiate with K-Water. The MWSS Board, however, recommended that MWSS should negotiate directly with K-Water instead of PSALM.

2015:

The Inter Agency – Technical Working Group (IA-TWG) completed its formulation of minimum Concession Fee and other parameters for the direct negotiation with K-Water (now registered as Angat Hydropower Corporation or AHC) and the same was submitted to the MWSS Board.

Completed the discussion and exchange of communication with AHC and the latter submitted its final proposal on 21 April 2015.

Despite OGCC Opinion that MWSS may lawfully negotiate with K-Water (OGCC Opinion No. 269 dated 17 Dec 2013), the MWSS sought NEDA Board’s approval to negotiate directly with AHC, and an exemption from 2013 NEDA Joint Venture Guidelines. Awaiting response from NEDA regarding the matter.

2016:

The NEDA in its letter to MWSS dated 28 July 2016 responded that they cannot grant the exemption of the Project from the required competitive challenge under the 2013 JV Guidelines. In addition, NEDA informed that MWSS may seek an opinion from the OGCC on whether a negotiated JV may be pursued for the Project under the 2013 JV Guidelines.

Hence, MWSS wrote OGCC on 21 Sept 2016 in compliance with NEDA’s advice/comments.

**Sumag River Diversion Project**

**Description:**

The Project was originally a component of the Umiray-Angat Transbasin Project (UATP) and the plan was for raw water from the Sumag River to be diverted through a branch tunnel that will be tapped to the existing Umiray Tunnel, thus generating an additional volume of raw water of 2.2cms or 188mld to the Angat Reservoir.

The additional volume in the Angat Reservoir adds to ensuring the reliability and security of water supply to MWSS’ service area (i.e., Metro Manila including the nearby Provinces of Rizal, Cavite and Bulacan), and will also address the impact of reduced water allocation during summer season and El Nino periods.

The Project, which will be funded and implemented by the Concessionaires through the Common Purpose Facility (CPF) Office, involves the construction of a 2.50m diameter x 600 meters length tunnel with a total cost of PhP 774 Million.

**Accomplishments:**

2013:

- Cooperated with CPF on the compliance of MOA between CPF and the NCIP
- Monitored the negotiation of DCCD Consultant and CPF-BAC to the lowest complying bidder.
- Project Notice of Award was issued to Cavite Ideal Int’l. Construction and Development Corp. on 17 December 2013.
2014:

- Notice To Proceed was issued on April 15, 2014 allowing the contractor, Cavite Ideal Int’l. Construction and Development Corp., to proceed with its contract works except cutting of trees.

2015:

- 50.073% actual physical accomplishment by the contractor, Cavite Ideal Int’l. Construction and Development Corp., as of 31 December 2015 and the construction works is on-going. The Project which started on April 15, 2014 (NTP issuance) is expected to be completed by 04 July 2016 based on the revised contract duration of 746 calendar days.

2016:

- Construction works at 59.57% actual physical accomplishment before flooding incident
- Construction works was suspended upon the Order of LGU Quezon due to the incident that happened (re: cofferdam that collapsed on 13 August 2016 resulting to the death of six (6) persons).
To ensure Concessionaires’ compliance to the original Concession Agreement (1997-2022) and the Concession Agreement’s Term Extension (2022-2037) on water supply connection.

The efficient delivery of this life resource requires the latest technology and engineering solutions. The MWSS Charter provides these powers and functions, “xxx .. (3k) To construct works across, over, through and/or alongside, any stream, water-course, canal, ditch, plume, street, avenue, highway or railway, whether public or private as the location of said works may require; (3n) To approve, regulate the establishment, operation and maintenance of waterworks and deepwells within its jurisdiction, operated for commercial, industrial, and government purposes; and to fix just and equitable rates and fees that may be charged to customers.; (3o) To assist in the establishment, operation and maintenance of waterworks and sewerage systems within its jurisdiction in a cooperative basis; (3p) To approve and regulate the establishment and construction of waterworks and sewerage systems in privately owned subdivision within its jurisdiction; (3q) To have exclusive and sole right to test, mount, dismount and remount water meters within its jurisdiction… xxx”.

Water distribution efficiency is monitored through the compliance of MWSS’ two Concessionaires (Manila Water Company Inc. managing the East Zone and Maynilad Water Services, Inc. managing the West Zone) to standards and compliance targets. MWSS leads and partners with the concessionaires in infrastructure projects to reduce non-revenue water (NRW). Additionally, MWSS drives the rehabilitation of the transmission systems with the construction of new tunnels and aqueducts.

MWSS plays an important role in determining, improving and managing the integrity of the downstream transmission systems.
Angat Water Transmission Project (AWTIP)

Description

The Angat Water Transmission Improvement Project (AWTIP, the “Project”) aims to improve the reliability and security of the raw water coming from the Angat Dam through rehabilitation of the transmission system from Ipo to La Mesa and the application of water safety, risk and asset management plans. The original plan was to rehabilitate only the system downstream of Bigte but the feasibility study (FS) or Assessment Report made on it found it necessary to include the tunnels between Ipo and Bigte in the rehab as they form an integral system with the aqueducts downstream of Bigte.

As suggested by the FS, the project involves the construction of a new Tunnel No. 4 from Ipo to Bigte including intake and outlet works. Once constructed, it will facilitate the subsequent rehabilitation of the whole transmission system identified in the Assessment Report.

The new Tunnel No. 4 from Ipo to Bigte will have a diameter of 4 meters and a total length of 6.30 kilometers, with a design capacity of 19 cubic meters per second (19cms).

The project is financed from an ADB Loan worth US$123.64M (P5.687B). The Philippine government will shoulder the taxes of $10.34M while the concessionaires will pay the loan to ADB.

Accomplishments:

2012:
- June 19, 2012: Grant of MWSS request for NEDA to include the AWUAIP Phase 3 project in the 2014 Country Operations Business Plan (COBP) of ADB instead of 2015
- October 1, 2012: Signing of Memorandum of Understanding (MOU) by and between MWSS and Asian Development Bank (ADB) for a technical assistance grant covering the conduct of feasibility study of the Ipo-Bicti-Novaliches Raw Water Conveyance System Rehabilitation Project (RWCSRP) – “AWUAIP Phase 3”.
- December 18, 2012: NTP of the Consultancy Services for the full-blown feasibility study of AWUAIP Phase 3

2013:
- Completed Feasibility Study in August 2013;
- Approved by NEDA-ICC Technical Board on 27 November 2013, and by the NEDA Cabinet Committee on 16 December 2013;
- Drafted the MOA between MWSS and the Concessionaires for the loan repayment;
- Started loan negotiation with ADB.

2014:
- Secured NEDA Board (chaired by the President) approval of the Project on 29 May 2014.
- Completed the preparation of bidding documents and the same were submitted to the ADB for review/comments and approval.
- Loan negotiation with ADB was in progress.
- Preparation and review of MOA between MWSS and the Concessionaires for the loan repayment was in progress.

2015:
- Approval by ADB of the bidding documents on 17 February 2015.
- Advertised in newspapers of general circulations the “Invitation For First Stage Bids” on February 20, 23, & 27, 2015.
- Eight (8) Bidders submitted their respective bid for the First Stage on 05 June 2015;
- Completed the Bid Evaluation Report (BER) for the First Stage Bidding and submitted to ADB on 16 Dec 2015 for review and approval.
2016:

- Three (3) pre-qualified bidders submitted their financial bids on 23 March 2016. Evaluation of bids on-going.
- ADB Loan signing was done on 29 March 2016 in the amount of US$123.64M (P5.687B). Phil govt to pay taxes worth $10.34M.
- 18 firms submitted Expression of Interest (EOI) for consultancy services on engineering works. Submission was made on-line as required by ADB.
- The Project was awarded to CMC Ravena in the total Bid Price of PhP3.29 Billion and the Notice Of Award (NOA) was issued on 05 May 2016.
- On-going post-award requirements and contract documentation.
- Unveiling of the Project was held on 26 May 2016 attended by President Aquino.
MWSS Awards the Angat Water Transmission Improvement Project (AWTIP)

The MWSS awarded the contract for the Design and Construction of the Angat Water Transmission Improvement Project (AWTIP) to winning bidder Cooperativa Muratori & Cementisti – CMC di Ravenna Societa Cooperativa. The Notice of Award (NOA) was given by MWSS Administrator Gerry Esquivel to Paul Van Klaveren of ADB and Andrea Ciamei of winning bidder CMC Ravenna in simple ceremonies at the MWSS on May 5, 2016.

The winning bidder which declared a bid of Php 3.291B (after 12% VAT) has been evaluated to be the Lowest Evaluated Responsive Bidder over two other bidders which passed the pre-qualification stage of the bidding process. The award had been decided after the evaluation by the MWSS of the three bidders that passed the pre-qualification stage of the procurement project. Prior to the award, the evaluation process and results had been approved by the Asian Development Bank (ADB) as conforming with the ADB Procurement Guidelines and the terms and conditions of the ADB Loan. The ADB provided the funds for the project.

The AWTIP will rehabilitate the raw water transmission system to improve its reliability and security and thereby sustain and secure water supply from the Angat reservoir thru sustained operations of the aqueducts and improve disaster risk preparedness and asset management.

Specifically, the AWTIP program is set to build a new Tunnel (No. 4) to augment the present three tunnels connecting the Ipo to Bigte transmission route. Water from the Angat Dam flows to the Ipo Dam where further water release is regulated. Water coming from Ipo goes to the Bigte settling basin where water is carried through the aqueducts going to the La Mesa portal. This project is an offshoot of the erstwhile AWUAIP project which involved the construction of the new Aqueduct No. 6 and rehabilitation works of existing Aqueduct No. 5 and interconnection works for the six (6) aqueducts.
Rehabilitation of Umiray-Angat Transbasin Tunnel facilities

Background:

The Umiray-Angat Transbasin Tunnel was constructed and became operational in June 2000 and the raw water conveyed through this 13 km tunnel from the Umiray River contributes about 20 – 30% (or 780 million liters per day) of the raw water for Metro Manila. The intake facilities are located at Umiray, General Nakar, Quezon, while the outlet facilities are located in Macua, Dona Remedios Trinidad, Bulacan.

On November 29, 2004, the tunnel and its facilities were severely damaged by a typhoon causing the complete stoppage of operations particularly the conveyance of raw water from the Umiray River to the Angat Reservoir via Macua River as the 13-km tunnel was clogged with boulders, logs and other debris. To mitigate water shortage, urgent works were done to declog the tunnel and let the raw water flow again through it. Thus, on March 17, 2005, after about three and a half (3.5) months of de-clogging works, the Umiray-Angat Transbasin Tunnel was finally cleared of logs and debris allowing the flow of raw water again.

Since the immediate works done is only for the purpose of allowing the flow of raw water again into the tunnel, a permanent rehabilitation works has to be done to strengthen the stability of the structures to withstand future flood and typhoons. A Consultant was hired by the Concessionaires which prepared the detailed design.

Description:

The Project involves the rehabilitation and strengthening of existing tunnel structures/facilities to withstand future typhoons in order to ensure the continuous flow of raw water from the Umiray River to the Angat Reservoir. The Project, which will be funded and implemented by the Concessionaires through the Common Purpose Facility (CPF) Office, is estimated to cost PhP 717 Million.

Accomplishments/Status:

2013:
• Monitored the re-scoping of rehabilitation program of DCCD Consultant and the CPF Bids and Awards Committee regarding the re-bidding of the Project.
• Attended coordination meetings with CPF, NCIP and LGU
• preparations for the re-bidding of the Project

2014:
• Monitored the re-scoping of the rehabilitation program of DCCD Consultant and the CPF Bids and Awards Committee regarding the re-bidding of the Project.
• Participated in coordination meetings with CPF, NCIP and LGU
• preparations for the re-bidding of the Project

2015:
• Bid submission on 29 October 2015 wherein three (3) Bidders submitted their respective bids;
• Completed the bid evaluation on November 2015;
• Issued the Notice of Award to the winning bidder (A.M. Oreta Construction) on 28 December 2015;

2016:
• The Project was awarded to A.M. Oreta Construction, and the Notice To Proceed was issued on 20 April 2016
• Construction works were suspended upon the order of LGU Quezon due to the incident that happened (re: cofferdam that collapsed on 13 August 2016 resulting to the death of six (6) persons).
To ensure Concessionaires’ compliance to the original Concession Agreement (1997-2022) and the Concession Agreement’s Term Extension (2022-2037) on sewerage and sanitation services.

Sewerage and sanitation form the other half of the water services for Mega Manila. The charter directs MWSS to “xxx...construct, maintain, and operate such sanitary sewerages as may be necessary for the proper sanitation and other uses of the cities and towns comprising the system.”

The regulatory challenge in ensuring compliance in sewerage and sanitation and implementation of programs is complex given the following factors:

- Congestion in the metropolis
- Availability of land for wastewater facilities
- Acquisition of right of way for sewer lines
- Solid wastes in the influent
- Uncontrollable influent quality
- Capacity and Willingness to Pay
- Consistency in regulations and regulatory environment

Most of the work and attention on sewerage and sanitation services, as provided by the concessionaires, are measured through Key Performance Indicators (KPI) and Business Efficiency Measures (BEMs), collectively referred to as KPI-BEMs. The concessionaires have been meeting these KPI-BEMs (e.g., progress in construction; increase in wastewater treatment capacity; increase in septage treatment before disposal, etc.) set in the Concession Agreement through the following sewerage and sanitation programs that are currently being implemented:

1. Clean-up of Manila Bay
2. Three-River System Improvement Program - a program for the treatment of sewer and wastewater before such water returns to the 3-river system of San Juan, Marikina and Mandaluyong.
3. Continuous desludging of septic tanks per the targets set
4. Breakdown of targets per municipality and city for prioritization and better monitoring
5. Adoption of a creek interception and drainage outflow interception
6. Setting-up of wastewater treatment facilities in defined catchment areas and major interceptor lines
7. Upgrading and expansion of Central Manila Sewerage System
8. Better target and standard-setting and improved design criteria
9. Improved treatment technology and design capacity for Sewerage Treatment Plants (STPs)
10. Improved sewer ordinance and policy-making
11. Continuing awareness campaign on water re-use

The KPI-BEMs of Legacy 3 contributes to the following benefits to the public:

1. Prevention of health risks associated with wastewater
2. Improvement of the quality of water bodies and living environment
3. Rehabilitation of river systems that improves its biodiversity and protects ground and surface water sources from contamination with polluted water.
4. Increased public awareness on the importance of sewerage and sanitation that improves cooperation and encourages households to agree to the following:

- Household connection to sewer line
- Proper construction and regular desludging of septic tanks
- Allowing the construction of treatment plants within their backyard
- Proper disposal of solid waste.

Although this is a Concessionaire-led effort, MWSS takes an active part in the monitoring of their progress.

Legacy 3: Sewerage and Sanitation Compliance

Sewerage and sanitation projects that meet the needs of the present and will sustain the needs of future generations, is a core principle in addressing our 3rd legacy.

This is the spirit behind the promulgation of the Clean Water Act of 2004, the Sanitation Code of the Philippines and one of the mandates of MWSS as enshrined in its Charter. A scale up progression of the performance targets was programmed for 2009-2010 as a result of the two (2) Concessionaires’ respective concession term extensions. In 2011, the Supreme Court issued a Continuing Mandamus (G.R. Nos. 171947-48 promulgated in February 15, 2011) for the clean-up, rehabilitation and preservation of Manila Bay where MWSS was directed to complete, all wastewater facilities within its service area by year 2037.

The MWSS service area in Metro Manila comprises one of the region’s largest and densest cities and is the largest contributor to the country’s Gross Domestic Product at 36.5% in 2016. The average growth rate of 6% per annum (6.8 in 2016) over the past decade is driven by rapid industrialization and accelerated urbanization. Such growth in the economic and urban fronts spurs higher demand for urban water consumption and so does the production of wastewater.

Key Performance Indicators in Sewerage and Sanitation

To see how close the Concessionaires have come to hitting the bulls-eye in their performance commitments, the MWSS uses indicators that will measure the full range of outcomes, positive and negative, with agreed upon evaluative framework. The following parameters serve as the compliance indicators in sewerage and sanitation which targets are based on Schedule 4 of the Concession Agreement (Sanitation Coverage Targets), with the targets expressed as percentages of the population in the designated city/municipality and the entire Service Area.

1. New Sewer Service Connections
This indicator monitors the performance of the Concessionaire in terms of providing sewer services to all water connected Customers within its concession area. The objective is to account for all new sewer service connections installed and to determine compliance on the number of new sewer service connections against targets based on the Concessionaire’s Approved Business Plan.

2. Sewer Coverage Target
The objective here is to meet the coverage target percentages of the total population in the designated municipality connected to the Concessionaires’ water system as set out in Schedule 3 of the Concession Agreement (CA).

3. Septic Tanks Deslugged
The objective here is to monitor the performance of the Concessionaires in terms of providing
desludging services to Customers within its Service Area. Performance is measured by determination of compliance with sanitation targets for each designated city/ municipality and the entire Service Area.

4. Sanitation Coverage
The objective here is to monitor the Concessionaires’ compliance in meeting the sanitation coverage target percentages of the total population in the designated City / Municipality connected to the Concessionaires’ water system as set out in Schedule 4 of the CA.

5. Wastewater Effluent Quality
This indicator measures the effectiveness of the sewage treatment function as derived from the effluent samples collected from the separate as well as the community and combined sewerage systems.

There are five key parameters to test wastewater samples collected at the designated sampling point to validate the Concessionaire’s wastewater treatment facility, i.e.,

- Biochemical Oxygen Demand (BOD)
- Chemical Oxygen Demand (COD)
- Total Suspended Solids (TSS)
- Oil & grease (O&G)
- Total Coliforms (TC)

However, the Department of Natural and Environmental Resources (DENR) came up with a new effluent regulation thru the issuance of DAO-2016-008 effective 14 June 2016. Consequently, the RO revised the key parameters for testing based on the significant parameters set by the new DAO under domestic sewage. The RO revised parameters exclude nutrients as the Concessionaire’s existing Sewage Treatment Plants (STPs) are not yet capable to treat said parameters. There is a need to retrofit the existing STPs in order to allow the construction/integration of secondary treatment process necessary for the treatment of the nutrients. The RO required the Concessionaires to submit their respective Action Plans in order for their facilities (STPs/SpTps) to comply with the new DENR standard.

The Table below is the list of the key parameters set out by DAO 2016-08 and their corresponding maximum allowable limit (MAL) set by DAO 2016-008.

<table>
<thead>
<tr>
<th>Key parameter</th>
<th>Maximum Allowable Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Biochemical oxygen demand</td>
<td>50 mg/l</td>
</tr>
<tr>
<td>2  Surfactants as MBAS +</td>
<td>15 mg/l</td>
</tr>
<tr>
<td>3  Total suspended solids</td>
<td>100 mg/l</td>
</tr>
<tr>
<td>4  Oil &amp; grease</td>
<td>5 mg/l</td>
</tr>
<tr>
<td>5  Fecal coliforms ++</td>
<td>400 MPN/100ml</td>
</tr>
</tbody>
</table>

+ : replacing COD effective Jan 2017
++ : replacing Total coliforms effective Sept 2016

The quality of treated wastewater discharge by a treatment facility is considered not to have conformed with the standards, when –

- the analysis of all five key parameters was not conducted by an environmental laboratory certified to ISO 17025 or DENR Laboratory recognition,
- each of the five key parameters was analyzed using other standard methods not prescribed by the DENR,
- the sample was not collected from the designated sampling point for the regulation,
- sampling was not done on the scheduled date submitted to the RO. The Concessionaire is required to submit in writing justifiable cause of ‘no sampling’ on the pre-scheduled sampling date.
- Concessionaire chose to report on total coliforms (TC) instead of the fecal coliforms, or the TC result exceeded the 400 MPN/100ml standard value,
- Operational inefficiency has occurred. Operational inefficiency is defined as an event when the RO was unable to collect wastewater sample on its scheduled date for the sampling, because the RO did not-
  - receive Notification from the Concessionaire of any breakdown at the plant,
  - receive a Notification from the Concessionaire of any breakdown that can impact on the quality of its discharge but the cause provided by the Concessionaire in the notification was found otherwise after the RO investigation or validation.
g. Concessionaire did not submit a report for the facility.

Only samples passing on the complete package of parameters are considered with satisfactory performance.

Aside from regulatory governance measures, there are other non-regulatory factors MWSS and its Concessionaires considers the demands placed by the community for improved environmental performance at lowest possible cost as equally urgent than the prescribed regulatory compliance measures.

Based on the Approved Business Plans from the 20913 Rate Rebasing exercise, the Concessionaires committed to invest in new waste water treatment plants, lay new pipes to unsewered areas, and rehabilitate existing sewer network system and treatment facilities. Substantial investment in wastewater infrastructure is essential to protect the environment, the health of the population and support Metro Manila, the capital city, as an engine of growth for the whole country.

Investment on wastewater capex is shown below:

**WASTEWATER CAPEX INVESTMENTS**

![Graph showing wastewater capex investments](image-url)
2016 Performance

The percentage of customers who have access to improved sanitation facilities has improved from 7% in 1997, 8% in 2013 to 11% in 2016 in concession area.

### Maynilad Service Obligations

<table>
<thead>
<tr>
<th>Service</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Sewer Connection</td>
<td>1,506.00</td>
<td>4,423.00</td>
<td>4,229.00</td>
<td>4,113</td>
<td>4,019</td>
<td>4,000</td>
</tr>
<tr>
<td>Sewer Service Coverage</td>
<td>7%</td>
<td>8%</td>
<td>10%</td>
<td>12%</td>
<td>13%</td>
<td>27%</td>
</tr>
<tr>
<td>Wastewater Standards</td>
<td>Passed</td>
<td>Passed</td>
<td>92.97</td>
<td>Passed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sanitation Service Coverage</td>
<td>8%</td>
<td>16%</td>
<td>25%</td>
<td>38%</td>
<td>49%</td>
<td>50%</td>
</tr>
</tbody>
</table>

### Manila Water Service Obligations

<table>
<thead>
<tr>
<th>Service</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Connections</td>
<td>109,687</td>
<td>112,181</td>
<td>112,282</td>
<td>123,729</td>
<td>133,327</td>
<td>102,775</td>
</tr>
<tr>
<td>Sewer Service Coverage</td>
<td>7.20%</td>
<td>9.60%</td>
<td>8.10%</td>
<td>13.00%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wastewater Standards</td>
<td>Passed</td>
<td>Passed</td>
<td>100%</td>
<td>Passed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sanitation Service Coverage</td>
<td>97.00%</td>
<td>118.00%</td>
<td>116.00%</td>
<td>116.00%</td>
<td>140.00%</td>
<td></td>
</tr>
</tbody>
</table>

The Table 1 and Table 2 show the sanitation served population per city/municipality.
The MWSS service area is divided into several wastewater catchment areas. The existing sewerage systems in these catchments are composed of STPs/SpTps and the associated sewer network.

As of EO 2016 the existing sewerage system in the West Zone and their individual facility performance is shown in the table below. Wastewater effluent quality in 2016 was computed at 92.97% which is slightly higher than previous year performance of 92.75%.

<table>
<thead>
<tr>
<th>Catchment Profile</th>
<th>Facilities</th>
<th>Capacity</th>
<th>Utilization Performance</th>
<th>Area Served</th>
<th>No. of Sewer Connections</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Manila Catchment</td>
<td>Tondo Sewage Pumping Plant</td>
<td>432 MLD</td>
<td>73%</td>
<td>2,845 has.</td>
<td>75,000</td>
</tr>
<tr>
<td></td>
<td>Paco Sewage Treatment Plant</td>
<td>0.410 MLD</td>
<td>96%</td>
<td>14 has.</td>
<td>2,000</td>
</tr>
<tr>
<td>II. Quezon City West Catchment (San Juan River Basin)</td>
<td>3. Congressional STP</td>
<td>0.57 MLD</td>
<td>87%</td>
<td>51.1 has.</td>
<td>5,100</td>
</tr>
<tr>
<td></td>
<td>4. Legal STP</td>
<td>0.41 MLD</td>
<td>100%</td>
<td>26.8 has.</td>
<td>10,900</td>
</tr>
<tr>
<td></td>
<td>5. Grant STP</td>
<td>0.62 MLD</td>
<td>96%</td>
<td>24.8 has.</td>
<td>9,900</td>
</tr>
<tr>
<td></td>
<td>6. Baesa STP</td>
<td>0.39 MLD</td>
<td>100%</td>
<td>7.4 has.</td>
<td>4,500</td>
</tr>
<tr>
<td></td>
<td>7. San Antonio STP</td>
<td>3.31 MLD</td>
<td>91%</td>
<td>79.3 has.</td>
<td>29,000</td>
</tr>
<tr>
<td></td>
<td>8. Del Monte STP</td>
<td>3.51 MLD</td>
<td>83%</td>
<td>103.9 has.</td>
<td>29,000</td>
</tr>
<tr>
<td></td>
<td>9. Tandang Sora STP</td>
<td>1.20 MLD</td>
<td>96%</td>
<td>52.9 has.</td>
<td>10,800</td>
</tr>
<tr>
<td></td>
<td>10. Paltok STP</td>
<td>4.5 MLD</td>
<td>100%</td>
<td>146.6 has.</td>
<td>37,000</td>
</tr>
<tr>
<td></td>
<td>11. Samson STP</td>
<td>1.90 MLD</td>
<td>96%</td>
<td>63.3 has.</td>
<td>25,000</td>
</tr>
<tr>
<td></td>
<td>12. Kapligan STP</td>
<td>6.00 MLD</td>
<td>100%</td>
<td>15.2 has.</td>
<td>38,200</td>
</tr>
<tr>
<td></td>
<td>13. Tatlon STP</td>
<td>8.10 MLD</td>
<td>96%</td>
<td>147.5 has.</td>
<td>65,000</td>
</tr>
<tr>
<td></td>
<td>14. Bagbag STP</td>
<td>10.40 MLD</td>
<td>96%</td>
<td>416.9 has.</td>
<td>105,000</td>
</tr>
<tr>
<td></td>
<td>15. Balay Tero STP</td>
<td>13.40 MLD</td>
<td>96%</td>
<td>456.1 has.</td>
<td>113,100</td>
</tr>
<tr>
<td></td>
<td>16. Talayan STP</td>
<td>15.40 MLD</td>
<td>91%</td>
<td>772 has.</td>
<td>116,000</td>
</tr>
</tbody>
</table>

In the East Concession, there were 39 STPs/SpTps monitored for compliance in wastewater quality. All of the MWC facilities fully complied with the standards.
a) To protect the consuming public as the ultimate benefactor of MWSS; b) To ensure prudence and efficiency of Concessionaires’ Business Plans; c) To value and recognize the business sustainability of the Concessionaires

Legacy 4 is anchored on Section (h) and (n) of the MWSS Charter -“xxx… (h) To fix periodically water rates and sewerage service fees as the System may deem just and equitable; (n) To approve, regulate and supervise the establishment, operation and maintenance of waterworks and deepwells within its jurisdiction operated for commercial, industrial and government purposes and to fix just and equitable rates or fees that may be charged to customers.”

Since the MWSS privatization in 1997, along with the improvement in water delivery service coverage and quality, the all-in tariff rates in the MWSS service area also increased. By the 3rd quarter of 2013, consumers had experienced rates grow annually at 14.9% and 11.6% in the East and West Zones, respectively. A report published by the ADB in 2014 titled “Urban Water Supply and Sanitation in Southeast Asia: A Guide to Good Practice”, placed Metro Manila’s tariff as the highest out of the 14 utilities in six countries in the region.

Following the Concession Agreements (CA), the MWSS implemented the Third Rate Rebasing Review in 2012-2013. The Third Rate Rebasing Review is by far the most comprehensive and thorough audit of the Concessionaires’ water rates proposal. It was also the most controversial.

For the first time, water rates in the MWSS service area were to go down.

Consistent with Philippine law and the CA, in the Third Rate Rebasign Review, MWSS excluded the Concessionaires’ Corporate Income Tax (CIT) payments as a recoverable expenditure. This decision resulted in the Concessionaires filing several arbitration cases against MWSS and the Republic of the Philippines, some of which are still awaiting final decisions. In the two main arbitration cases, the decisions handed down were diametrically opposed. One tribunal said CIT is recoverable; the other one said it is not. Given these contradictory positions and the legal issues involved in these cases, MWSS believes that the ultimate resolution of this issue rests with the Supreme Court (SC). Cases filed by third parties on this and related matters are now pending with the High Court. In our manifestations in these cases, we emphasized the urgency of a ruling by the SC on the CIT issue so all parties can finally put this matter to a close.

MWSS management also implemented important reforms during the Third Rate Rebasing Review and in the last six years to further the aims of the Concession Agreements as well as to lay the foundations for more clarity and stability to our regulatory processes. These include development of guidelines on concession accounting and audit, project monitoring and capital expenditure review, Key Performance Indicators/Business Efficiency Measures (KPI/BEM) evaluation, and appropriate discount rate determination.

Understandably, six years are not enough to complete the reform agenda. 2017 is another rate rebasing year, and will be an even bigger challenge until the CIT issue is resolved. Nonetheless, MWSS must continue to act with its eye firmly on the bigger picture – within the framework of law and its contractual obligations, to improve and expand the delivery of a life resource to consumers in its service areas.
CUSTOMER SERVICE REGULATION AREA

The monitoring customer satisfaction with the performance of the concessionaires is under the responsibility of the Customers Service Regulation Area (CSRA). The CSRA has two departments - the Meter Efficiency Department and the Complaints Service and Monitoring Department.

The Meter Efficiency Department is in charge of formulating and recommending policies, rules, and regulations for the improvement of services to customers such as metering, billing, and water and sewerage service connections. The department develops standards and evaluates the performance of the concessionaires in the abovementioned services and ensures compliance with acceptable technical standards. It also monitors and evaluates NRW programs of both concessionaires through efficient metering system.

The Complaints Service and Monitoring Department recommends policies, rules, and regulations for the improvement of the concessionaires’ customer service and evaluates the performance of concessionaires’ customer service efficiency.

This department has instituted and is responsible for maintaining a smooth feedback system on the resolution of complaints coming from customers. Furthermore, it monitors compliance of the concessionaires with the service obligations on water supply, sewer and sanitation coverage targets, provisions of alternative water supply and other customer service standards.

A. Monitoring of Concessionaires’ Service Obligations

1. Key Performance Indicators Reports

New Domestic Water Service Connections (W1) – During the fourth quarter of 2016, Manila Water installed 7,622 new domestic water service connections while Maynilad installed 4,829 new connections. Manila Water has 954,301 total domestic water service connections billed as of 31 December 2016 and Maynilad has 1,251,301. As of 2016, the combined domestic connections for both Manila Water and Maynilad is 2,205,602.

New Domestic Sewer Connections (S1) – Manila Water mounted 8,990 new domestic sewer connections while Maynilad installed a total of 767 new sewer connections for the fourth quarter 2016. Domestic sewer connections sum up to 133,327 for Manila Water and 55,389 billed services for Maynilad as of 31 December 2016. Sewer domestic connections for both Concessionaires total 188,716.

Sanitation (S2) – The septic tanks desludged totaled to 22,420 for Manila Water and 27,633 for Maynilad. The aggregate total of septic tanks desludged as of 31 December 2016 is 82,143 for Manila Water and 96,594 for Maynilad. The combined count for both concessionaires is 178,737.

Service Complaints (C1) - Manila Water has resolved 97.85% or 36,328 out of 37,146 service complaints and on the other hand, Maynilad has resolved 98.6% or 56,904 resolved out of 57,898 service complaints as reported in the KPI BEM Reports.

Billing Complaints (C2) – For billing complaints, Manila Water has resolved 95.8% or 20,162 out of 21,503. On the other hand, Maynilad has resolved 98.6% or 56,904 of 57,898 received at the end of 2016.
2. IRR Compliance Reports

Interconnection and Turn Over of Subdivisions – Manila Water has converted 61% or 417 of the total 688 covered accounts as of the fourth quarter 2016. For Maynilad, 70% or 1,264 of 1,809 subdivisions has been individualized as of 31 December 2016.

Individualization of People’s Organizations (PO) – Manila Water has converted 68% or 512 out of 757 covered PO accounts as of 31 December 2016. Maynilad has no PO accounts hence, not covered by this IRR.

Disconnection and Reconnection of Water Service Connection – For the fourth quarter of 2016, Manila water has reconnected 19,134 and disconnected 26,738 water service connection accounts. Maynilad has reconnected 23,936 accounts and disconnected 43,936 accounts, likewise for the fourth quarter 2016.

Rate Classification and Billing Scheme of Small Scale (Home Based) Businesses – Manila Water has reclassified 280 of the 293 accounts during the fourth quarter of 2016 while Maynilad reclassified 1,599 out of 1,828 or 87% of the covered accounts reported.

Rate Classification for Places of Worships – Manila Water has reclassified 96% or 706 out of 734 and Maynilad 97% or 846 out of 871 of the covered accounts as of December 2016.

Revised IRR in the Billing Scheme and Rate Reclassification for High Rise and Other Multiple Dwellings – Manila Water has reclassified 234 out of 247 or 95% and Maynilad 278 out of 341 or 82% of the covered accounts as of end of 2016.

Treatment and Rate Reclassification Rate Reclassification of Domestic Customers Inside Military and Police Installations – Manila Water has reclassified 3 out of 5 covered accounts or 60% while Maynilad has already reclassified all the 4 covered accounts.

Additional Water Meter and Transfer of Connection Tapping Point – Manila Water has installed 2,880 additional meters out of 2,915 applications and has transferred 14 out of 14 applications for transfer tapping of connection for the fourth quarter of 2016. Maynilad has also installed 3,622 additional meters and transferred tapping connection of 12 applications.

Rate Reclassification of Certain Government Institutions – As of 31 December 2016, Manila Water has reclassified 97% or 541 of 556 of the covered accounts while Maynilad reclassified 489 of the 584 or 84% of the covered accounts as reported. Manila Water and Maynilad have both reclassified 93% and 3,094 out of 3,333 total accounts covered by the 2013 IRRs.

B. Validation and Verification Activities

For the year 2016, CSRA conducted validation and verification activities as discussed below:

1. IRR Related Validation and Verification Activities

There were 43 accounts from Manila water and 45 from Maynilad that were selected and verified by examining the meter reading and billing records for the fourth quarter of 2016. Verification made by CSRA totaled to 132 for Manila Water and 120 for Maynilad.

2. IRR Related Validation and Verification Activities

CSRA conducted verification and validation of 44 sample customers of Manila Water and Maynilad for KPI C2 (Billing Complaints) and another 20 sample customers for KPI C4 (New Connections).

C. Customer Complaints

1. Complaints Received

During the fourth quarter, nine complaints were filed against Manila water and 23 complaints against Maynilad. CSRA received a total of 111 complaints of which 107 complaints or 96% have been resolved at the concessionaires’ level during the fourth quarter of the 2016.

2. Status of Customer Complaints

Out of 32 complaints received with three backlogs, 31 were resolved and four were unresolved. There were 24 resolutions issued by CSR that include
two Closure Letters. There were total of 99 CSR Resolutions inclusive of eight Closure Letters.

Relative to the GCG 2016 target for SO 5/SM14 which is 90% of complaints resolved within 10 working days from submission for resolution, CSR has exceeded the target with 96% or 95 issued resolutions within 10 days out of the 99 issued resolutions.

D. Meter Testing

1. Complaints-Related Meter Testing

MED attended five invitations from Manila Water and four invitations from Maynilad to witness testing of customers’ meter. As of December 2016, a total of 10 invitations from Manila Water and 22 invitations from Maynilad for meter testing were received and witnessed by MED.

2. Analysis of the Concessionaires’ Reports on Water Meter Related Data for 3rd Quarter 2016

There are 607 suspected defective and tampered water meters which were inspected for accuracy according to Manila Water’s report. 82% or 497 meters tested passed the flow accuracy test while 110 or 18% tested meters were found defective. Only two water meters were recorded tampered. Maynilad, on the other hand, reported a total of 384 suspected defective and tampered meters which were pulled out, inspected and tested for accuracy. There were 169 units or 44% that passed the flow accuracy test and found to be still in good working condition and other 12% or 46 units are found defective with inaccurate registrations while 169 or 44% of the 384 meters tested were found tampered.

E. Site and Field Inspections

1. Planned Water Interruption

Field monitoring and verification was conducted by CSMD last 04 October 2016 in the areas of Las Pinas, Muntinlupa, Paranaque, and Imus (Cavite) which were experiencing intermittent interruption of water supply due to the continuous presence of high concentration of Total Dissolved Solids (TDS) in Laguna Lake resulting to Maynilad’s reduction of water production at Putatan Water Treatment Plant.

2. Desludging Activities

For the desludging activities of Maynilad, CSMD conducted field monitoring on 18 November 2016 at Odelco Subd., Brgy. San Bartolome, Novaliches, QC and on 13 December 2016 at Brgy. Bagbag, Novaliches, Quezon City.

FINANCIAL REGULATION AREA

Part of the regulatory responsibilities of the Regulatory Office includes safeguarding the efficiency of concessionaires’ business plans and evaluating the impact of implementation or non-implementation of key projects.

To do this is the Financial Regulation Area (FRA) which has two departments, the Financial Audit and Asset Monitoring (FAAMD) and the Tariff Control and Monitoring (TCMD) the task of both of which is to ascertain the Concessionaires’ financial performance for the covered period.

The Financial Audit and Asset Monitoring Department evaluates the financial operations and status of concessionaires primarily thru the validation of cash flows relative to tariff adjustment activities.

On the other hand, the Tariff Control and Monitoring Department validates petitions for tariff adjustments and monitors compliance of the approved standard rates and other charges as provided for in the Concession Agreement (CA).

Financial Audit and Asset Monitoring (FAAMD)

1. Business Efficiency Measures

The Monthly Trending Report template was developed for the Business Efficiency Measures and this helped the FAAMD to monitor the efficiency of Concessionaire vis-à-vis its Business Plan.

The FAMMD submitted 10 Monthly Trending Reports to the Key Performance Indicators Business Efficiency Measures (KPI BEMs) Committee for the 2015 Annual KPI Report and 2016 First Half KPI BEMs Report.
2. Regulatory Financial Audit

FAAMD started the procurement process and drafted the Terms of Reference and Cost Estimates of the consultancy services for financial auditors which was approved by the MWSS Board of Trustees on 31 March 2016. The hiring of an independent auditor is allowed under Section 13.2 of the CA.

However, procurement for the Consultancy Services for Regulatory Financial Audit of 2016 went through two failed biddings. Hence, the Regulatory Financial Audit of 2016 was instead included in the activities for the forthcoming Fourth Rate Rebasing determination.

Computed FCDA amount and tariff impact to customers are as follows:

**Tariff Control and Monitoring Department (TCMD)**

1. Foreign Currency Differential Adjustment

Foreign Currency Adjustments (FCDA) mechanism for both concessionaires is determined on a quarterly basis in compliance with the provisions of Amendment 1 of CA approved by the MWSS Board of trustees under Board Resolution No. 487-2001 and 512-2001 dated October 1 and 12 of 2001 respectively. The following are the computed FCDA amount and tariff impact to customers:

**TABLE 6. FCDA Amount and Tariff Impact**

<table>
<thead>
<tr>
<th>Charging Period</th>
<th>MAYNILAD Petition Received</th>
<th>MAYNILAD Evaluation Submitted</th>
<th>MANILA WATER Petition Received</th>
<th>MANILA WATER Evaluation Submitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>2\textsuperscript{nd} Quarter 2016</td>
<td>22 Feb 2016</td>
<td>03 March 2016</td>
<td>19 Feb 2016</td>
<td>03 Mar 2016</td>
</tr>
<tr>
<td>FCDA, (%)</td>
<td>0.38%</td>
<td>0.34%</td>
<td>1.23%</td>
<td>1.04%</td>
</tr>
<tr>
<td>FCDA, (Php, m\textsuperscript{3})</td>
<td>0.13</td>
<td>0.12</td>
<td>0.31</td>
<td>0.26</td>
</tr>
<tr>
<td>3\textsuperscript{rd} Quarter 2016</td>
<td>25 May 2016</td>
<td>01 Jun 2016</td>
<td>20 May 2016</td>
<td>31 May 2016</td>
</tr>
<tr>
<td>FCDA, (%)</td>
<td>0.37%</td>
<td>0.32%</td>
<td>1.11%</td>
<td>1.02%</td>
</tr>
<tr>
<td>FCDA, (Php, m\textsuperscript{3})</td>
<td>0.12</td>
<td>0.11</td>
<td>0.28</td>
<td>0.25</td>
</tr>
<tr>
<td>4\textsuperscript{th} Quarter 2016</td>
<td>22 Aug 2016</td>
<td>01 Sep 2016</td>
<td>22 Aug 2016</td>
<td>01 Sep 2016</td>
</tr>
<tr>
<td>FCDA, (%)</td>
<td>0.67%</td>
<td>0.59%</td>
<td>2.85%</td>
<td>2.85%</td>
</tr>
<tr>
<td>FCDA, (Php/m\textsuperscript{3})</td>
<td>0.23</td>
<td>0.20</td>
<td>0.71</td>
<td>0.71</td>
</tr>
<tr>
<td>1\textsuperscript{st} Quarter 2017</td>
<td>27 Oct 2016</td>
<td>01 Dec 2016</td>
<td>28 Oct 2016</td>
<td>01 Dec 2016</td>
</tr>
<tr>
<td>FCDA, (%)</td>
<td>0.55%</td>
<td>0.50%</td>
<td>1.81%</td>
<td>2.81%</td>
</tr>
<tr>
<td>FCDA, (Php, m\textsuperscript{3})</td>
<td>0.19</td>
<td>0.17</td>
<td>0.70</td>
<td>0.70</td>
</tr>
</tbody>
</table>

Besides validating and recommending the FCDA for the specified quarter, the TCMD also monitored implementation of the new rates, on a random basis. TMCD monitored the implementation of new rates on a random basis and also validates and recommends FCDA for specified quarter.

2. Rates Adjustment Limit

Section 9.2 of the CA as amended states that, “The Standard Rates for water and sewerage services shall be adjusted each year effective January 1 of each Charging Year, in accordance with (i) the Rates Adjustment Limit (RAL) set forth in Section 9.2.1”.

RAL is the percentage, either positive or negative, that is equal to the sum of the percentage change in the Consumer Price Index for the Philippines (“C”), Extraordinary Price Adjustment (“E”), and Rebasing Convergence Adjustment (“R”) or $RAL = \text{"C"} + \text{"E"} + \text{"R"}$. 
TCMD had validated and recommended the Standard Rates that complied with RAL for the Charging Year 2017 based on this matrix:

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>MAYNILAD</th>
<th>MANILA WATER</th>
</tr>
</thead>
<tbody>
<tr>
<td>“C”</td>
<td>1.90%</td>
<td>1.90%</td>
</tr>
<tr>
<td>“E”</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>“R”</td>
<td>0.00%</td>
<td>-2.21%</td>
</tr>
<tr>
<td>RAL</td>
<td>1.90%</td>
<td>-0.31%</td>
</tr>
</tbody>
</table>

TCMD also supervised the carrying out of new rates on a random basis together with FCDA for the first quarter of the same year.

**Other Activities**

As provided in the CA and Amendment No. 1, the FRA was vigorous in the development of Implementing Rules and Regulations (IRR) that serves as guide on the required determinations from the Regulatory Office.

TCMD finalized the proposed Appropriate Discount Rate (ADR) Determination Framework.

The ADR Determination Framework was able to identify verifiable data sources that will provide predictability and stability in the way the ADR is determined through subscription to Bloomberg Professional Services. The FRA also revived the development of an IRR for FCDA determination in order to develop a more stable (i.e. less volatile) FCDA values by changing some of the current base data being used.

TCMD performed its regular functions of monitoring the annual inflation rates. The average Consumer Price Index (CPI)-based inflation indicated in the officially-released figures from the Philippine Statistics Authority shall be used for the annual adjustments of certain charges and thresholds pursuant to the CA, as presented below:

**TABLE 7. Rates Adjustments Limit for 2017**

<table>
<thead>
<tr>
<th></th>
<th>MAYNILAD</th>
<th>MANILA WATER</th>
</tr>
</thead>
<tbody>
<tr>
<td>“C”</td>
<td>1.90%</td>
<td>1.90%</td>
</tr>
<tr>
<td>“E”</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>“R”</td>
<td>0.00%</td>
<td>-2.21%</td>
</tr>
<tr>
<td>RAL</td>
<td>1.90%</td>
<td>-0.31%</td>
</tr>
</tbody>
</table>

**TABLE 8. Adjustments in the CPI Based Items in the CA**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Inflation Rate 1/</td>
<td>4.1%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Annual Budget (Sections 6.2 &amp; 11.2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Office</td>
<td>P489,287,516.00</td>
<td>P496,137,541.00</td>
</tr>
<tr>
<td>Regulatory Office</td>
<td>P489,287,516.00</td>
<td>P496,137,541.00</td>
</tr>
<tr>
<td>Connection Charge (Section 9.5 (i))</td>
<td>P7,339.31</td>
<td>P7,442.06</td>
</tr>
<tr>
<td>Connection Charge 2/ (IRR No. 2008-06)</td>
<td>P2,446.44</td>
<td>P2,480.69</td>
</tr>
<tr>
<td>Reconnection Charge (IRR Nos. 2008-01 &amp; 2013-01)</td>
<td>P200.00</td>
<td>P202.80</td>
</tr>
<tr>
<td>Procurement of Goods and Services (Section 6.10)</td>
<td>P611,609.00</td>
<td>P620,172.00</td>
</tr>
<tr>
<td>Appeals panel per diem (Section 12.6 (ii))</td>
<td>P6,116.00</td>
<td>P6,202.00</td>
</tr>
<tr>
<td>Low Income Household (Section 1)</td>
<td>P122,322.00</td>
<td>P124,034.00</td>
</tr>
</tbody>
</table>

1/ Annual Inflation Rate applied is the average inflation rate of the previous calendar year. For CY 2013 onwards, 2006-based CPI was used.

2/ For Open/ depressed Communities
TECHNICAL REGULATION AREA

The monitoring and compliance of service obligations of concessionaires on water, sewerage, and sanitation services and ensuring continuous access to safe and potable water to customers are the responsibilities of the Technical Regulation Area (TRA). These duties are attained through conducting on-site inspection of projects and facilities, monitoring compliance of concessionaires to their service obligations such as in asset management, water availability, pressures, and regular checking and testing of water and wastewater facilities. TRA has two departments namely Operations Monitoring Department (OMD) and Water Quality Control Department (WQCD).

A. Operations Monitoring Department

Operations Monitoring Department is largely assigned to monitor concessionaires’ capital and to ensure compliance to projects in meeting their Service Obligation Targets.

This department audits and evaluates the necessity and cost efficiency of projects undertaken by the concessionaires in coordination with the Financial Regulation Area and a third party independent consultant. It also monitors the compliance of the concessionaires to their Service Obligations, such as in asset management, water availability and pressure, among other obligations.

1. CAPEX Monitoring

OMD evaluated eight quarterly CAPEX Accomplishment Reports, four for each Concessionaire. The total disbursements of Manila Water and Maynilad were Php 5.963 billion and Php 9.267 billion, respectively. These figures are based on unaudited financial statement reports.

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Target</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manila Water</td>
<td>5,963</td>
<td>8,790</td>
<td>68%</td>
</tr>
<tr>
<td>Maynilad</td>
<td>9,267</td>
<td>10,052</td>
<td>92%</td>
</tr>
</tbody>
</table>

Table 2. CAPEX Disbursement

Table 1 showed that only 68% (MWCI) and 92% (MWSI) of concessionaires’ targets for 2016 were disbursed. The disbursements are comprised of Internal CAPEX and Concession Fees.

2. Water Availability and Pressure

The Concession Agreement (CA) requires that water being supplied shall be at the minimum pressure of 16 psi at all times and this is monitored by the OMD.

However, during the 2002 Rate Rebasing exercise, the minimum pressure of 16 psi was relaxed to an interim pressure of 7 psi. Maynilad subsequently reverted the target to 16 psi by the end of 2016 based on its approved 2013 Business Plan. Currently, the evaluation criterion for Manila Water is still down at 7 psi while Maynilad stays at 16 psi pressure levels. The Regulatory Office identified Regulatory Benchmark Customers (RBCs) also known as Pressure Monitoring Points which are installed with data loggers to monitor the water availability and pressure within the Concession Area.

The RBCs were established such that they represent the worst situation in an area and or a District Metering Area (DMA). RBCs shall be the first to be affected in cases of any deviation in water supply and pressure condition in the system.

RBCs are those that are either farthest from the source and or located on the highest and extremities portion of the water supply distribution network in a particular hydraulic area.
OMD confirmed a total of 140 RBCs covering eight and 12 Business Areas operated by Manila Water and Maynilad, respectively.

### Table 3. Water Availability and Pressure

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manila Water</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RBCs with 24/7</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>53</td>
</tr>
<tr>
<td>Total RBCs</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>56</td>
</tr>
<tr>
<td>% Passed</td>
<td>93</td>
<td>93</td>
<td>93</td>
<td>100</td>
<td>94.6</td>
</tr>
<tr>
<td><strong>Maynilad</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RBCs with 24/7 (2016)</td>
<td>15</td>
<td>11</td>
<td>4</td>
<td>12</td>
<td>42</td>
</tr>
<tr>
<td>Total RBCs</td>
<td>21</td>
<td>19</td>
<td>23</td>
<td>21</td>
<td>84</td>
</tr>
<tr>
<td>% Passed</td>
<td>71</td>
<td>58</td>
<td>17.4</td>
<td>54.1</td>
<td>50</td>
</tr>
</tbody>
</table>

Out of the 56 RBCs validated for Manila Water, 53 or 94.6% have been served with 24/7 level of service. It only means that the reported water availability and pressure maps are relatively accurate considering that only a small percentage of customers are not receiving the minimum pressure of 7 psi at any given time.

Furthermore, Manila Water recounted about 10,110 water availability and pressure related complaints that were received during the period under consideration confirming that only a small pockets of the service area are experiencing below the required 24/7 service level.

On the other hand, out of the 84 RBCs validated for Maynilad, 42 or 50% experienced 24/7psi (for the first half of 2016) and 24/16psi (for the second half of 2016) level of service. Comparing the validated data with the Quarterly Water Availability and Pressure Reports submitted by Maynilad, the results showed that reported water availability and pressure are not accurate as there were monitoring points that did not receive the required pressure at all times.

On 1 January 2006, the water level started at 213.71 meters and ended with 212.74 meters on 31 December of the same year. The water level has difference of 0.97 meters translating to an average drop in the water surface level by 0.003 meters per day.

Following the usual movement of Angat water surface level, the elevation plunges during the first semester until the first week of August wherein the lowest level for 2016 was documented at 173.91 meters on 7 August.

The elevation started to recover during the second week of August with a significant rise of about 22 meters from 13-31 August that can be attributed to the southwest monsoon (Habagat) rains. Nevertheless, during the month of September, Angat water elevation dropped at an average rate of 0.08 meters per day until the first week of October. Since then, Angat elevation started to rise again until the end of the year due to the monsoon rains brought about by the typhoons.

On a quarterly basis, OMD submits evaluation report on Angat elevation and releases vis-à-vis the Concessionaires’ water production. Based on the Regulatory Office’s evaluation, the
computed total average production of the three treatment plants (BFP1, BFP2 and ELMTP) of Manila Water was 1,478.53 MLD while the average raw water supply was 1,544.45 MLD yielding an efficiency of 95.73%. On the other hand, the total average production of the two treatment plants (LMTP1 and LMTP2) of Maynilad was 1,831.96 MLD while the average raw water supply was 2,220.65 MLD yielding an efficiency of only 82.50%.

The Regulatory Office noted the low efficiency of Maynilad’s treatment plants which led to the former’s request for the explanation on the matter. In response, Maynilad made a presentation clarifying that the production of the La Mesa Treatment Plants were being measured at the Bagbag Reservoir (4 kms away from LMTP 1 & 2) and from La Mesa Pumping Stations (North A, B and C) which are already considered system input volumes. The available flow measuring devices at the outlet of the La Mesa Treatment Plants are no longer reliable.

Nonetheless, Maynilad reassured the Regulatory Office that they are on the process of replacing said flow metering devices. Maynilad conducted technical study of its Production and Transmission Flow Metering Project last March 2013. Moreover, rehabilitation and installation of meters from the inlet of La Mesa Treatment Plants up to Bagbag Reservoir were also part of 2013-2017 Business Plan expected to be completed in June 2017.

4. KPI BEMs Evaluation

OMD monitors the KPIs BEMs on Continuity of Supply (W2W3), Response to Disruptive Mains (C5), Billed Volume (IN1), Physical and Financial Accomplishment (CA2), and Non-Revenue Water (NR1) to ensure that the Concessionaires comply with their service obligations as stipulated in the CA.

When it comes to responding to disruptive mains, Manila Water displayed an outstanding performance as it was able to repair all pipe bursts within 24 hours translating to an efficiency of 100%, thereby surpassing its target of 95% for 2016.

In contrast, Maynilad’s performance was evaluated to be only at 20% since it only reported pipe bursts with supply interruption that were repaired within 24 hours. It failed to report the status of the pipe bursts without supply interruption totaling 1,063 or 80.3% of the total confirmed leaks. The 20% efficiency evaluation shall remain unless Maynilad submits information that subject pipe bursts were repaired within 24 hours.

Generally, Manila Water obtained “passed” remarks in all the above-mentioned indicators, except for CAPEX Physical Accomplishment (CA2) wherein it was unsuccessful to submit its overall accomplishment, thus, no analysis on performance vis-à-vis target can be made. Maynilad, however, has only passed the Non-Revenue Water (NR1) indicator.

5. Other Accomplishments

OMD led the project implementation for an Enterprise Geographical Information System (EGIS) and the Technical Audit and Evaluation of the Concessionaires CAPEX Programs and Projects.

Through EGIS project, the Regulatory Office wishes to develop its own geodatabase design that will be used in gathering and analyzing data in evaluating performance of the Concessionaires. It is also aims to train and familiarize the Regulatory Office personnel in using ArcGIS software and processes. The objective of the CAPEX Audit is to determine the efficiency of CAPEX Programs and Projects implemented by the Concessionaires. Together with WQCD, OMD also directed site monitoring and water quality test on the emergency repair of the 600 mm mainline breakage which was hit by the backhoe of the Department of Public Works and Highways (DPWH) along Marcos Highway corner Olalia Road, Antipolo.

Staff from the Regulatory Office were able to monitor one sampling point in the upper area at No. 9 Langhaya St. Bgy. Dela Paz and another point at the fire hydrant located at GSIS Avenue corner Road 31, Cogeo Gate 2 which served as the watering point of the water tankers. Residual chlorine and turbidity were tested and results are within the PNSDW standards.
a) To promote a culture of excellence and accountability within the agency and ensure the employees’ general well-being;

b) To elevate MWSS to international professional standards in governance, finance, engineering, and guiding principles and mandates of Government Owned and Controlled Corporations

MWSS’ commitment of transformation to a standard of excellence is clearly in the MWSS charter, which is “… (j) to acquire, purchase, hold, transfer, sell, lease, rent, mortgage, encumber, and otherwise dispose of real and personal property, including rights and franchises, consistent with the purpose for which the System is created and reasonably required for the transaction of the lawful business of the same; and xxx … (m) to contract indebtedness in an currency and issue bonds to finance projects as may be expressly authorized by law with the approval of the President of the Philippines upon the recommendation of the Secretary of Finance.”

That MWSS is an engineering company and a responsible government-owned and controlled corporation has not been given much emphasis and impetus until 2011. Change and transformation is imperative in projects, funding, staffing, governance, infrastructure, and virtually every operational and financial aspect to drive excellence.

MWSS likewise recognizes that employee programs are vital for operational excellence. It will comply with civil service programs on performance management and trainings to enhance the skills sets and upgrade skill levels of its employees through continuous trainings and other appropriate mechanisms.

The challenge to rise up from being branded as the poster corporation of corruption and excesses, as reported in the President’s SONA in 2010, was so strong that radical measures had to be instituted to revitalize the agency into a high-performing government entity. Focus was given to the following initiatives:

1. Agency financial turnaround
   a. Remittance of dividends to the national coffers not done from 2008 to 2010;
   b. Rationalization of employees allowances and benefits to what is allowed by law and included in the Collective Negotiation Agreement with the employees;
   c. Collection of one-time payments of past-dues from other agencies and concessionaires;
   d. Prudent investment planning, disciplined project management and customer-focused tariff/price setting;
   e. Compliance with tax laws;

2. Payment of long-delayed retirement benefits dating back to 1997;

3. Compliance with good governance, transparency and accountability conditions by the GCG as committed in a MWSS Manual of Corporate Governance;

4. Implementation of asset management programs;

5. Implementation of business continuity programs;

6. Automation and computerization programs;

7. Inculcation of employee performance management and development programs;

8. Implementation of an early retirement incentive package;

9. Implementation of the MWSS reorganization paving the way for an improved compensation package for employees.
Ultimately, reorganization is imperative to achieve excellence. It will provide the right balance between engineering and administrative staffing. It will facilitate the hiring of qualified personnel to augment the aging population of 106 employees. For the new employees, it will provide the opportunity for the current experts in MWSS to mentor them.

These initiatives create an atmosphere of pride and self-worth as MWSS pursues its mandate to provide water and sewerage services in Mega Manila.

CSC Holds Competency Training for MWSS Employees

The Civil Service Institute (CSI) of the Civil Service Commission (CSC) held a Competency Training course/program for MWSS employees at the MWSS’ Bulwagan. The program aimed to provide guidance on the use of competencies in enhancing organizational recruitment and promotion system and allows for a contextualization of roles and functions. Moreover, it provided an integrated framework for HR management and the application of competencies in recruitment, selection, placement, promotion, development and other key human resources functions. It was divided into four modules with the first two - Competency-Based Modeling and Profiling and Competency-based Qualification Standards and Job Description done on 17-19 February 2016 and 2-4 March 2016, respectively. The last two modules Competency-based Assessment and Integration of Competencies in the Recruitment and Selection System were completed in April 2016. The course was attended by personnel of both the MWSS Corporate Office and Regulatory Office representing each department in their respective offices.
Competency Framework for Achieving Organizational Excellence

MWSS clearly understands the cause and effect relationship between the capability of its people and the value delivered to its customers. It is for this reason that it has committed under its 2016 Performance Scorecard, a document signed by and between Governance Committee for GOCs and MWSS that the Competency-based HR system be done within 2016.

This commitment is an articulation of MWSS' continuing effort towards organizational excellence in its ranks through the promotion of the Civil Service Commission’s (CSC) programs which are:

1. Program to Institutionalize Meritocracy and Excellence in Human Resource Management (PRIME-HRM) - mechanism that empowers government agencies by developing their HR management competencies, systems and practices toward HR excellence. The CO adopted a PRIME-HRM manual which was approved by the CSC in 2012.

2. Strategic Performance Management System (SPMS) – Implemented in MWSS since mid-2013

3. Competency-Based Recruitment and Qualification Standards (CBRQS)

4. Competency-Based Learning and Development Program (CBLD) – aims to integrate competencies in training and employee development.

5. Leadership and Coaching Program (LCP)

The MWSS engaged the CSC-Civil Service Institute to conduct a series of trainings for the former’s 22 officers and staff (between March-April 2016) to implement the CBRQS and CBLD. The training modules include:

1. Competency Model Development and Profiling
2. Competency Based Qualification Standards and Job Description
3. Competency Based Assessment
4. Integration of Competencies in the Recruitment and Selection System

Said trainings helped participants to gain an understanding on how a Competency Framework/Model can impact change in the following areas:

1. Recruitment and Selection- recruit efforts tailored to the CO’s specific needs to minimize if not avoid recruitment and selection mistakes.

2. Performance Management – Help managers easily evaluate worker performance levels using specific behavioral indicators, which reduces subjective assessment, and increases assessment accuracy. Managers have the vocabulary and examples to discuss performance with their employees in a specific and factual manner.

3. Personal Development Plans -- Employees can identify and plan their personal development needs in order to support progression into other roles within the organization.

4. Career Development- Makes it clear to an average performer what they need to attain to become a superior performer.

Thus in September 2016, a team was created composed of select CSC-CSI trained employees, with the task to develop the MWSS-CO Competency Framework. There were 80 competency / behavior examples collected by the team which were categorized into Core, Leadership and Technical Competencies:

1. Core Competencies or the strengths of multiple processes, methods-based skills that the CO does best and exhibited by all employees regardless of position.

These core competencies include Accountability, Basic Water & Sewerage Technology, Policy Knowledge, Communications, Human Relations, Computer Knowledge & Skills, Planning and Technical Skills and Adaptability, Demonstrating Personal Effectiveness.
2. Leadership and Management Competencies— are “MUST” to be observed, displayed knowledge, sets of skills or multiple related process for officers (SG-21 and above) who supervise staff or who work through others or a team to get the job done. Included in this tier are Professionalism, Role Modeling, People Management, Strategic Thinking and Operations Management.

3. Technical/Functional Competencies relate to specific group of knowledge and skills required to perform the defined activities in MWSS. These include Engineering and Project Management, Internal Audit, Finance, Administration and General Services, Property Management, Board Secretariat, Corporate Planning, Technical Support and Operations and Legal.

As the development of a Framework was solely an in-house initiative, significant effort was devoted to analyzing the tasks and organizing the competence requirements per position within a department, to come up with a Position Qualifications Guide. The Guide articulated the CO’s capability requirements. Moreover, it is useful in the hiring and recruitment process, particularly in enabling employees to plan and organize their working lives towards achieving a competence-based qualification.

The completion of the Framework in December 2016 is a major milestone in MWSS’ efforts to collaboratively professionalize its workforce by setting the standards for professional competence. The Framework circled in on what is important, specifically by identifying and defining the combination of strategically significant knowledge, skills, abilities, and other Characteristics needed for superior job performance.

The framework having been developed, there is a need to pilot test it in one of the departments to iron out any potential issues and to hone the individualized training requirements before finally moving into implementation.

MWSS Obtains Minimum Guarantee Fee Interest of 0.25 Percent of the ADB Loan for AWTIP

MWSS was granted a minimum guarantee fee of 0.25 percent per annum of its ADB loan to finance the AWTIP, down from the original 1% given to MWSS. The directive came from the Department of Finance (DOF) through its letter of 25 May 2016 to the MWSS, pursuant to the DOF Circular 1-2016 on the Adoption of a Risk-based Policy Framework on the Issuance and Pricing of Guarantee and Foreign Exchange Risk Cover Fees.

The Circular promulgates guidelines governing the extension of guarantees by the national government for borrowings of GOCCs and GFIs. It provides a guarantee fee range from a minimum of 0.25% to 1.5% of the loan amount depending on the evaluation of financial conditions of GOCCs by the DOF. The guarantee fee is expressed as a percentage interest from the total loan of the receiving GOCC/GFI.
MWSS Remits P150M in Partial Dividends to National Treasury in 2016

The MWSS has given Php 150M to the National Treasury on 10 May 2016 as partial dividends remittance for the year 2014. The final remittance amount for the year will be determined after the audited financial statements shall have been released by the COA. The MWSS has consistently remitted to government fifty (50) percent of its income every year since 2011 and has a total remittance of some Php1.3B so far since 2011. Remittance was Php240M for 2011, 284M for 2012, 336M for 2013 and P282.5M for 2014.

The remittance was formally acknowledged by the President during the GOCC Day held at the Malacañan Palace on 23 May 2016, along with the remittances of other Government Owned and Controlled Corporations (GOCCs). Some 54 GOCCs represented by their respective chief executive officers (CEO) and/or representatives were honored in the event as the CEOs handed over their checks to PNoy in the annual ceremonial turnover of GOCCs’ dividends and recognition of GOCCs’ achievements and their significant contributions to the country’s national development.

With this year’s theme “Building the Nation through Good Corporate Governance,” the President gave thanks to the remitting GOCCs and said that the total remittance for the past six years of his Administration amounted to P164.33 billion. This is almost twice the sum remitted by the previous Administration of P84.18 billion from 2001 to 2010.

Since 2012, the Governance Commission has continued the tradition of the annual ceremonial turnover of GOCCs’ dividends and recognition of GOCCs that made significant contributions to national development.

MWSS Submits FOI Manual to OP’s Presidential Communications and Operations Office

MWSS Corporate Office (CO) submitted its Freedom of Information (FOI) Manual to the Presidential Communications and Operations Office (PCOO) on November 2016. The FOI Manual was crafted by the MWSS CO pursuant to Executive Order (EO) No. 2 which essentially establishes the requirements allowing access to information on public records subject to the limitations contained in the E.O. The E.O also establishes the need for each government agency to make available a People’s FOI Manual.

The Manual contains the following information: (a) The person or office responsible for deciding disposition of requests for information; (b) the person/s receiving and processing requests for information; (c) The procedure for the filing and processing of the request, (d) The standard forms for the submission of requests and for the proper acknowledgment of requests; (e) The process for the disposition of requests; (f) The procedure for the administrative appeal of any denial for access to information; and (g) The schedule of applicable fees. The Manual submitted basically follows the template provided by the PCOO in making the Manual.
a) To strengthen roles and cooperation between MWSS and its Concessionaires; b) To develop and expand new partnerships in delivering the key elements of the Water Security Legacy Program

MWSS recognizes stakeholders as vital partners in the achievement of its goals and encourages active participation with them in all possible areas of cooperation.

The concessionaires have become the major stakeholder by virtue of the concession agreements signed in 1997. Local government units play a key role especially in the implementation of infrastructure projects. Partner agencies oftentimes serve as the clearing house of major programs and as such are in regular communication with MWSS. Indigenous people who live near our water sources deserve our goodwill. People affected by the MWSS’ right to eminent domain include private individuals and informal settlers. Fund sources from both public and private entities including overseas assistance are major partners in water security. MWSS will likewise be participative in social responsibility undertakings especially in the event of disasters.

MWSS believes that working with these entities bring about a synergy of energies resulting in a more powerful consolidated result greater than the individual collective outcomes of each of the entities. This partnership building will ensure the wholistic and integrated water resource management to benefit Mega Manila consumers.
MWSS Releases Funds to NPC for ADDSP Component 2

The MWSS and the NPC signed a MOA on 03 May 2016 effecting the release of Php237.16M to NPC for the Angat Dam & Dyke Strengthening Project (ADDSP). Signing the MOA are MWSS Administrator Gerry Esquivel for MWSS and NPC President and CEO Ma. Gladys Cruz-Sta. Rita for NPC, in the presence of officials of both agencies. The transfer of funds is intended to finance the Package 2 component of the ADDSP – the Instrumentation for Flood Forecasting and Warning System on the Dam Operation.

The amount was originally intended for MWSS to do the component but a changing of responsibilities was made to effect from the privatization of the Angat Hydro Electric Power Plant (AHEPP) in which K-Water was awarded the project. The responsibility of the implementation of the package 2 component was determined to remain with NPC.

The original budget approved by NEDA for this package was Php 260.91M. But after the evaluation of the scope of work by DPWH the amount was reduced to Php 237.16M as the first tranche while the balance remains to be under study.

MWSS Signs MOA With UP-CIDS on Conduct of Customer Satisfaction Survey

The MWSS and the University of the Philippines- Center for Integrative Development Studies (UP-CIDS) have signed a Memorandum of Agreement (MOA) on 01 June 2016 for the conduct of a Customer Satisfaction Survey by UP-CIDS on MWSS’ stakeholders.

The survey is one of the commitments of the MWSS in its 2016 Performance Scorecard with the Governance Commission on GOCCs (GCG). It will provide an indication of how MWSS is perceived by its stakeholders in various areas of interface, providing valuable inputs to MWSS on improving its service delivery mechanism with its various stakeholders. The stakeholders covered are the following: MWSS financial creditors (e.g., ADB), National Government Agencies/GOCCs, concessionaires, lessees, local government units and water consumers. The UP CIDS will also be doing a survey for the MWSS Regulatory Office RO. with water consumers as respondents. But these are the water consumers that have direct interface with the MWSS RO. The water consumer respondents for the MWSS CO will be selected in random.
MWSS signs MOA with Bulacan for fund transfer of P267M for Angat Dam and Dyke Strengthening Project (ADDSP)

MWSS signs a MOA with the province of Bulacan for fund transfer of P267M for the Angat Dam And Dyke Strengthening Project (ADDSP) on 22 March 2016 at the MWSS Board Room. Present to sign the MOA were PGB Governor Wilhelmino Sy-Alvarado and Administrator Gerardo A. I. Esquivel of MWSS. The MOA signing coincided with the actual transfer of check of P267M.

The fund transfer will cover the cost for Flood Control Protection Works (downstream of Angat) originally part of the Angat Dam & Dyke Strengthening Project (ADDSP) now under the Angat River Downstream Improvement Project (ARDIP) of Bulacan. The ADDSP was originally a project of MWSS until the Supreme Court decision confirming the award of the Angat Hydro-Electric Power Plant (AHEPP) to K-Water now known as Angat Hydropower Corporation (AHC) which shifted implementation responsibilities.

MWSS Joins CSC Fun Run for CSC's 116th Anniversary Celebration

Some sixty (60) employees of the MWSS Corporate Office joined participants from other government agencies in the Fun Run to commemorate the 116th Philippine Civil Service Anniversary. The event dubbed “Sigaw ng Lingkod Bayani: Malasakit Para sa Taumbayan, Kapwa Kawani at Kalikasan” was held on 03 September 2016 at the Quirino Grandstand. The runners chose from among the three run categories of 3 kilometers, 5 kilometers and 10 kilometers to participate in. The Run started at 5 am and by 7:30 am all the runners were finished. Some entertainment was provided by Ms. Aiza Seguerra after the Run.
MWSS joins 2016 Takbo Para Sa Kagitingan

MWSS joins the 2016 Takbo Para sa Kagitingan (Filipino Day of Valor) Fun Run sponsored by the Philippine Sports Commission on 09 April 2016. Some 55 MWSS employees joined runners from other participating agencies in the Run. It was held in connection with the festivities commemorating 2016 Araw ng Kagitingan. Assembly place is at the Quirino Grandstand where the Run, which was divided into two categories of 3k and 5k, started (at 6 am) and ended. The top 1500 finishers were each given a singlet as award.

MWSS Joins Partners for Growth Trade Exhibit

The MWSS participated in the 2016 Joint Vendor and Conference and Exhibit held at the MWSS building premises on 26-27 October 2016. The two-day program proper was held at the Maynilad Conference Room where various officials from MWSS, MWSI and MWCI and vendor officials/representatives took turns in presenting different aspects of the water business including advancement and status of water technology, water supply chain, environment and quality, trends in water/engineering. DA Bobby Cleofas delivered the keynote message on the long-standing commitment between MWSS and the concessionaires particularly on the concession agreements.

The exhibitors/vendors all 34 of them were given slots in various locations (e.g., Maynilad basement, Maynilad Grd. Floor, Maynilad PNB entrance, Mla. Water lobby-grd flr) in the MWSS building and showcased their various products on water through their brochures replete with souvenir items.

MWSS Joins 2016 World Water Day Run

MWSS joins the 2016 World Water Day Run held in Marikina on 20 March 2016. The participants from all the participating offices were grouped into three categories of 3k, 5k and 10k signifying the length of the course the runner chooses to participate in. The Run which began at about 6am started and finished at the Marikina Sports Complex.
Legacy 6: MWSS Fetes Rescuers in Sumag River Diversion Project Accident

The MWSS held a Recognition Ceremony on 23 September 2016 to honor the volunteers and rescuers who participated in the joint search, rescue and retrieval operations on August 13 to 30, 2016 in the aftermath of the accident on the Sumag River Diversion Project on 13 August 2016. The ceremony which was held at the MWSS office in Balara, Quezon City was a joint undertaking of the MWSS and its concessionaires Manila Water (MWCI) and Maynilad. The Sumag Diversion Project is an undertaking of the three (3) agencies under the Common Purpose Facilities (CPF) framework of the Concessionaire Agreement.

A Holy Mass was celebrated in commemoration of the eight casualties of the flooding accident and helicopter crash. Sixteen rescuers, mostly from the 48th Infantry Battalion of the Philippine Army were given Plaques of Appreciation. The Plaques for the two rescuers who died in the rescue operations were received by their respective families. Present to give the plaques of appreciation and to deliver key messages were the following officials: Sr. Deputy Administrator Nathaniel Santos, Deputy Administrators Zoilo Andin and Leonor Cleofas, all of MWSS, and representing the CPF were MWCI Group Director Geodino Carpio, Engr. Ronald Padua of Maynilad, Engr. Mario Rodriguez of MWCI (emcee) and Engr. Jose Dorado of MWSS (emcee).

The following are the 16 recipients: a) From the 48th Infantry Batallion, Philippine Army: Lt Colonels Yacob M. Usman, Ramil B. Anoyo; 1Lt. Giovannie Jade S. Pagaduan; 2Lts Ahmad T. Matawag, Jan Miguel T. Jamelin, Roberto G. Apelado Jr.; SSgt Orlando A. Tangaro, Cpl. Manuel A. Fernandez; b) From the Philippine Air Force: 1Lt. Mark Joel J. Delos Reyes; c) From Macro Asia: Capt. Miguel C. Logronio (+) (pilot) and Engr. Jay Erlan R. Gregorio (+) (Note: both perished in the helicopter crash), Capt. Jose Orlando O. Oliva (Director for Operations), Dindo Ylagan (Gen. Mgr); c) From Pureforce: Capt. Jose Maria Consunji, Jomerito S. Soliman (Chief Executive Officer); d) From Philex Mining Corporation: Engr Roosevelt Rosalin.

The incident actually involved two accidents. The first one was the flooding incident on August 13, 2016, and the second one was the crash of the rescue helicopter. It claimed the lives of eight people including two rescuers.
To develop a deep respect, appreciation, and intelligent use for water and water resources; b) To make MWSS and its partners respected names in the delivery of a valuable life resource; c) to use available policy, methodology and technology in expanding the roles of all stakeholders for water security of Metro Manila

In accordance with the GOCC Act, MWSS will always be transparent in its undertakings and program developments. The essence of corporate governance is transparency through an expansive communications and knowledge management initiative.

MWSS will maintain and post for unrestricted public access information as required to be included in the MWSS transparency seal. It will be active participants in the Integrated Corporate Reporting System (ICRS) to ensure faithful performance of its mandate using the standards of good governance, transparency, accountability and responsibility. It will obtain feedback from its stakeholders namely the public, concessionaires, partner agencies, local government units and its employees on matters that may improve the performance of its service. It will educate the public on the importance of the water resource and mitigation efforts to avert water crisis.

Ultimately, the more transparent we are, the more appreciative the public is of our programs, initiatives and accomplishments.
Since the filing of the two arbitration cases by the concessionaires, the MWSS RO focused on conducting public conferences and briefings to address issues related to conflicting decisions of appeals panel. On 5 July 2016, the Regulatory Office (RO) conducted a Public Dialogue for Maynilad customers at Maynilad Arroceros Building Manila. Two days after, RO also held a Public Dialogue at Comida China de Manila, FRDC Building, Pasig City for customers of Manila Water.

Customers had the opportunity to clarify issues relative to the carrying out of Implementing Rules and Regulations No. 2013-03 or the Rate Classification of Places of Worships through Public Dialogues.

RO focused on 2017 Rate Rebasing preliminary activities during the second half of the year. A total of 19 Pre-Rate Rebasing public consultations with representatives from various cities and municipalities were conducted to gather inputs on current and future land use and development plans within Manila Water and Maynilad’s service areas.

The Pre-Rate Rebasing Public Consultations aimed to inform the LGUs on the completed and ongoing projects and plans of concessionaires, to solicit inputs from LGUs which may be incorporated in the Business Plans of concessionaires and to align the plans of the LGUs with the Business Plans of concessionaires.

PUBLIC INFORMATION ACTIVITIES

MWSS Conducts Public Consultation for Angat Water Transmission Improvement Project (AWTIP)

MWSS conducted a forum where the Results of the Environmental Impact Assessment (EIA) of the Angat Water Transmission Project (AWTIP) were discussed. The forum was held on 29 July 2016 at the Barangay Hall, Barangay San Mateo, Norzagaray, Bulacan. The participants in the forum included the local officials of Norzagaray, Bulacan, representatives of Farmer’s Cooperative of Barangay San Mateo, Norzagaray, Bulacan and officers of stakeholder agencies like MWSS, the two concessionaires MWSI and MWCI, DENR, NPC, Pag-asa, NWRB, NCIP. Besides the results of the EIA, also presented were the EIA Process and the next steps of the EIA Process.
ANNUAL AUDIT REPORT
ON THE

Metropolitan Waterworks and Sewerage System

For the Year Ended December 31, 2016
EXECUTIVE SUMMARY

A. Introduction

Metropolitan Waterworks and Sewerage System (MWSS)

1. Republic Act (R.A.) 6234 dated June 19, 1971 created MWSS to ensure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes at just and equitable rates. Based on its original Charter, MWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within Metro Manila, the entire province of Rizal and a portion of Cavite. R.A. 8041 or the National Water Crisis Act of 1995 and implemented by Executive Order No. 286 on December 6, 1995 and Executive Order No. 311 on March 20, 1996 allowed MWSS to enter into arrangements that will result in the involvement or participation of the private sector in any or all of the segments, operations and/or facilities of the MWSS.

2. On 21 February 1997, the retail distribution of water was privatized through the Concession Agreement entered into with Manila Water Company, Inc. (East Zone) and Maynilad Water Services, Inc. (West Zone).

Scope and Objectives of Audit

3. The audit was conducted to determine the (a) level of assurance that may be placed on the Management’s assertions on the financial statements; (b) the propriety of transactions as well compliance with existing rules and regulation as well as Management’s policies; and (c) the extent of the implementation of prior years’ audit recommendations. A value-for-money audit was also conducted on the utilization of the MWSS - Corporate Office property leased out by the MWSS Corporate Office Multi- Purpose Cooperative to private individuals and on the water sampling activities of the MWSS - Regulatory Office.

4. The audit covered the operation and accounts of the MWSS for CY 2016 and was conducted in accordance with the Philippine Public Sector Standards on Auditing.

B. Financial Highlights

<table>
<thead>
<tr>
<th>Financial Position</th>
<th>2016</th>
<th>2015 As Restated</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>58.171</td>
<td>66.582</td>
<td>(8.411)</td>
</tr>
<tr>
<td>Liabilities</td>
<td>13.170</td>
<td>14.091</td>
<td>(0.921)</td>
</tr>
<tr>
<td>Equity</td>
<td>45.001</td>
<td>52.491</td>
<td>(7.490)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results of Operations</th>
<th>2016</th>
<th>2015 As Restated</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>2.838</td>
<td>2.675</td>
<td>0.163</td>
</tr>
<tr>
<td>Expenses</td>
<td>1.862</td>
<td>1.938</td>
<td>(0.076)</td>
</tr>
<tr>
<td>Net income from Operations</td>
<td>0.976</td>
<td>0.737</td>
<td>0.239</td>
</tr>
<tr>
<td>Gain (Loss) on Foreign Exchange</td>
<td>(0.511)</td>
<td>(0.504)</td>
<td>(0.007)</td>
</tr>
<tr>
<td>Net Income</td>
<td>0.465</td>
<td>0.233</td>
<td>0.232</td>
</tr>
</tbody>
</table>

During the year, MWSS generated net income from operations, before gain (loss) on foreign exchange, of P0.976 million higher by P0.239 million or 32 percent than the previous year’s restated net income.

MWSS paid dividend of P150 million in CY 2016 to the Bureau of the Treasury pertaining to the partial payment of dividend for CY 2015 with unremitted balance of P209 million, as discussed in paragraph C.3, Part II of the Report.
C. Auditor’s Opinion

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of MWSS for the year ended December 31, 2016 for the following reasons:

1. The presentation of the year-end balance of Appraisal Capital Stock in the Financial Statement amounting to P28.428 billion was not in accordance with the Philippine Public Sector Accounting Standards (PPSAS) on Property, Plant and Equipment (PPE).

2. The reported year-end balance of the account Other Receivables of P5.623 billion was unreliable due to:

   a. Recognition of the disputed claims by Concessionaire MWSI consisting of borrowing cost and penalty on delayed remittance of concession fee of P4.048 billion and P1.118 billion, respectively, or a total of P5.166 billion, not in accordance with PPSAS 19;

   b. Inclusion of Guarantee Deposits with Concessionaires MWSI and MWCI of P64.798 million and P55.681 million, respectively, representing active customer’s deposits withheld by Concessionaires from the collection of accounts receivable from water and sewer services of MWSS, contrary to the Conceptual Framework for Financial Reporting as prescribed by PPSAS; and

   c. Variance of P4.734 billion and P163.865 million between the book balances and the confirmed balances of the accounts with MWSI and MWCI.

3. Reliability, existence and completeness of the PPE were doubtful due to the deficiencies noted on the report of the physical inventory-taking of the MWSS’ properties as of December 31, 2016, to wit:

   a. Non-reconciliation of records between the Finance Department and Property Management Department pertaining to the Office Building, Other Structures and General and Administrative Equipment (GAE) on the Physical Inventory Report submitted and lack of information provided on the reconciliation report on the Land and Land rights;

   b. Various Office Buildings and Other Structures totaling P1.157 billion were not found/missing, dilapidated, abandoned and not-in-service/inactive, while various Land and Land rights with total area of 1,909,542 sq. m. were classified as not-in-service;

   c. Various Land and Land Rights with area totaling 1,846,396 sq.m. were found during the inventory-taking but not recorded in the books;

   d. Net variance of P3.280 billion was noted on the PPE book balance of Office Building, Other Structures and GAE as of December 31, 2016 as against the Physical Inventory Report of PMD;

   e. Various unserviceable GAE with total cost of P239.353 million returned to MWSS by the concessionaires in CYs 2006 to 2015 remained undisposed, contrary to the Manual on Disposal of Government Property; and

   f. Various retained assets with carrying amount of P96.043 million were reportedly used by the Concessionaires and Common Purpose Facilities (CPF).

4. Of the year-end balance of the account Other Deferred Credits, the amount of P1.815 billion or 98.61 percent was found not valid obligations since these are (a) credits with no collections received totaling P1.719 billion, (b) credits with collections already earned totaling P94.964 million, and (c) misclassifications to the account totaling P1.820 million.
D. Summary of Other Significant Audit Observations and Recommendations

Below is a summary of other significant audit observations and recommendations which are discussed in detail in Part II of the Report.

**MWSS Corporate Office**

1. The accumulated P1.914 billion collections from the two Concessionaires for the payment of the JBIC/OECF loan remained unremitted in spite of the continuous demand by the Bureau of the Treasury (BTr) to settle the payable, due to the unresolved issue on whether the loan should be treated as a grant/equity from the National Government or remain as a loan since the Concessionaires continued the project. *(Paragraph C.1)*

   **Recommendation:**

   Immediately remit to the Bureau of the Treasury the amount collected from the Concessionaires as payment for the JBIC/OECF loan.

2. The accuracy and validity of year-end balances of various asset and liability accounts totaling P1.564 billion and P265.095 million, respectively, cannot be ascertained due to lack of supporting documents and the accounts have been dormant for more than five years. *(Paragraph A.5)*

   **Recommendations:**

   a. Comply with the provisions of Section 111 (1) and (2) as regards recording of the accounts;

   b. Verify, review and analyze the dormant asset and liability accounts in paragraphs 5.3.1 and 5.3.3 totaling P1.564 billion and P265.095 million, respectively, as required under COA Circular No. 97-001 and effect necessary adjustment/s to arrive at the correct account balances at year-end; and

   c. For receivable accounts mentioned in paragraph 5.3.1 totaling P32.054 million which were dormant for more than 10 years and which may be written off, be guided by the procedures in the write-off of dormant accounts as set forth in the COA Circular No. 2016-005.

3. Unreconciled material variance of P1.526 billion existed between book balance of long-term liabilities account of P1.961 billion and the aggregate balance of P3.487 billion confirmed by the National Housing Authority (NHA), Bureau of the Treasury (BTr) and foreign lending institutions. *(Paragraph A.6)*

   **Recommendation:**

   Require the Finance Department to reconcile the discrepancies in the Loans Payable account to arrive at the correct balances at year-end.

4. The probability of collecting Accounts Receivable totaling P1.186 billion was remote since these accounts have been outstanding for 5 to 20 years.

   Due from Officers and Employees and Loans Receivables accounts amounting to P26.786 million and P5.979 million, respectively, registered a very low collection efficiency of 8.75 percent and 1.12 percent, respectively for the year. *(Paragraph A.8)*
Recommendations:

a. On Long Outstanding Receivables, request from the Commission on Audit for authority to write off from the books, accounts which qualify for derecognition pursuant to COA Circular No. 97-001 on the Guidelines on the Proper Disposition/Closure of Dormant Funds, and COA Circular No. 2016-005 on Guidelines and Procedure on the Write-off of Dormant Receivable Accounts in particular, the water sewer customer accounts;

b. On Raw Water accounts, enforce Paragraphs 14 and 15 of the Policies and Guidelines for Raw Water Accounts as regards penalties and interest on late payments;

c. On Due From Officers and Employees and Loans Receivables, send regular statement of accounts to officers/employees with outstanding loans to ensure that the loans will be settled within the period stipulated in the contract; and

d. Initiate legal action to collect receivables from officers/employees and individuals who are no longer connected with the MWSS.

5. Asset and liability accounts with balances aggregating P578.853 million and P884.548 million, respectively, remained unreconciled/unverified, thus, the reliability and accuracy of the account balances were doubtful. (Paragraph A.9)

Recommendation:

Facilitate the immediate reconciliation of the unreconciled/unverified accounts for fair presentation of the Statement of Financial Position.

6. MWSS was deprived of income and incurred additional expenses from the operations of its basement area by allowing the MWSS Corporate Office Multi-Purpose Cooperative (MCMC) to manage and lease the same to private individuals and shoulder the electricity expenses consumed in the area, totaling P1.6 million and P0.89 million, respectively, for CY 2016. Further, an area leased by the MWSI was being occupied by a food establishment without approval/consent from MWSS. (Paragraph E.1)

Recommendations:

a. Submit to this Office the authenticated documents bearing the name of officers who approved/allowed the MWSS Multi-Purpose Cooperative to manage and lease out the basement areas;

b. Enforce collection/remittance of MWSS’ share on the income derived from the canteen space and the payment of electric consumption for the last two years;

c. Comply with the provision of Section 4(2) of PD 1445 as regards the use of government property; and

d. Take appropriate action in accordance with paragraph 14 of the lease contract thru written notice to the defaulting party with regard to MWSI’s failure to comply with the terms and conditions of the contract, in particular, paragraphs 2.1 and 8, and rescind or terminate the same should the defaulting party fail to remedy the breach within thirty (30) days from its receipt of the written notice.
MWSS Regulatory Office (RO)

7. The validity of PPE accounts costing P149.381 million (exclusive of Building costing P2.815 million) as of December 31, 2016 remained doubtful mainly due to: (a) non-conduct of physical inventory count; and (b) lapses in the implementation of physical monitoring procedures and issuance of property to end-users, contrary to COA Circular No. 80-124.

Recommendations:

a. Conduct annual physical count of property to establish existence and determine their physical condition; and

b. Implement the use of the PAR in the issuance of equipment and other property to strengthen the establishment of accountability of end-users.

8. Loans amounting to P25 million granted to MWSS-RO Multi-Purpose Cooperative for land development and house construction remained with the Cooperative in spite of the non-realization/non-accomplishment of the project.

Recommendation:

Take legal action against the MWSS–RO Multipurpose Cooperative to collect or ensure the refund of the seed money including all accruing interest from CY 2005 up to the present.

9. Grant of Transportation Allowance (TA) totaling P183,750 to agency officials with assigned motor transportation was inconsistent with the pertinent provisions of DBM National Budget Circular No. 548; and total proportionate amount of P46,062.84 was not deducted from the TA of 15 agency officials notwithstanding their frequent use of motor vehicles during the year, contrary to COA Circular No. 2000-005.

Recommendations:

a. Require the refund of the TA amounting to P183,750 paid to officials with assigned motor vehicles, pursuant to DBM National Budget Circular No. 548, otherwise, a Notice of Disallowance shall be issued; and

b. Deduct from succeeding claims of TA the proportionate amount of P46,062.84 that should have been deducted from TA of the concerned officials who frequently used motor vehicles during the year, in line with Section 2.3 of COA Circular No. 2000-005, otherwise, a Notice of Disallowance shall be issued.
E. **Summary of Total Suspensions, Disallowances and Charges issued**

<table>
<thead>
<tr>
<th>Status</th>
<th>MWSS – Corporate Office</th>
<th>MWSS – Regulatory Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Disallowances/Charges with Pending Appeal with the Cluster 3/Commission Proper or Without Appeal Received but Appeal Period has not yet Expired</td>
<td>P329,339,652.30</td>
<td>P114,198,190.47</td>
</tr>
<tr>
<td>Notice of Disallowances which are final and executory</td>
<td>18,063,314.51</td>
<td>91,963,268.95</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>P347,402,966.81</strong></td>
<td><strong>P206,161,459.42</strong></td>
</tr>
</tbody>
</table>

F. **Status of Implementation of Prior Years’ Audit Recommendations**

Out of the 168 audit recommendations embodied in CY 2015 Annual Audit Report, 45 were implemented, 16 were partially implemented and 107 were not implemented. The audit recommendations not implemented were reiterated in Part II of this Report. Details were presented in the Status of Implementation of Prior Year’s Audit Recommendations under Part III.
INDEPENDENT AUDITOR'S REPORT

THE BOARD OF TRUSTEES
Metropolitan Waterworks and Sewerage System
Katipunan Road, Balara
Quezon City

Report on the financial statements

We have audited the accompanying financial statements of the Metropolitan Waterworks and Sewerage System, which comprise the statement of financial position as at December 31, 2016 and 2015 and the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, statement of comparison of budget and actual amounts and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Public Sector Accounting Standards (PPSAS) and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.
Basis for Qualified Opinion

1. The presentation of the year-end balance of Appraisal Capital Stock in the Financial Statement amounting to P28.428 billion was not in accordance with the Philippine Public Sector Accounting Standards (PPSAS) on Property, Plant and Equipment (PPE).

2. The reported year-end balance of the account Other Receivables of P5.623 billion was unreliable due to:
   a. Recognition of the disputed claims by Concessionaire MWSI consisting of borrowing cost and penalty on delayed remittance of concession fee of P4.048 billion and P1.118 billion, respectively, or a total of P5.166 billion, not in accordance with PPSAS 19;
   b. Inclusion of Guarantee Deposits with Concessionaires MWSI and MWCI of P64.798 million and P55.681 million, respectively, representing active customer’s deposits withheld by Concessionaires from the collection of accounts receivable from water and sewer services of MWSS, contrary to the Conceptual Framework for Financial Reporting as prescribed by PPSAS; and
   c. Variance of P4.734 billion and P163.865 million between the book balances and the confirmed balances of the accounts with MWSI and MWCI.

3. Reliability, existence and completeness of the PPE were doubtful due to the deficiencies noted on the report of the physical inventory-taking of the MWSS’ properties as of December 31, 2016, to wit:
   a. Non-reconciliation of records between the Finance Department and Property Management Department pertaining to the Office Building, Other Structures and General and Administrative Equipment (GAE) on the Physical Inventory Report submitted and lack of information provided on the reconciliation report on the Land and Land rights;
   b. Various Office Buildings and Other Structures totaling P1.157 billion were not found/missing, dilapidated, abandoned and not-in-service/inactive, while various Land and Land rights with total area of 1,909,542 sq. m. were classified as not-in-service;
   c. Various Land and Land Rights with area totaling 1,846,396 sq.m. were found during the inventory-taking but not recorded in the books;
   d. Net variance of P3.280 billion was noted on the PPE book balance of Office Building, Other Structures and GAE as of December 31, 2016 as against the Physical Inventory Report of PMD;
   e. Various unserviceable GAE with total cost of P239.353 million returned to MWSS by the concessionaires in CYs 2006 to 2015 remained undisposed, contrary to the Manual on Disposal of Government Property; and
   f. Various retained assets with carrying amount of P96.043 million were reportedly used by the Concessionaires and Common Purpose Facilities (CPF).

4. Of the year-end balance of the account Other Deferred Credits, the amount of P1.815 billion or 98.61 per cent was found not valid obligations since these are (a) credits with no collections received totaling P1.719 billion, (b) credits with collections already earned totaling P94.964 million, and (c) misclassifications to the account totaling P1.820 million.
Opinion

In CY 2015 Annual Audit Report, a disclaimer of opinion was rendered on the fairness of the financial statements as at December 31, 2015 due to the significant effect of the non-conduct of revaluation/appraisal of PPE as required under Philippine Accounting Standard (PAS) 16 and COA Resolution No. 89-17 dated March 17, 1989. However, pursuant to COA Circular No. 2015-003 dated April 16, 2015, MWSS is classified as a Non-Government Business Enterprise (Non-GBE) which shall apply the Philippine Public Sector Accounting Standards (PPSAS) as its financial reporting framework per COA Resolution No. 2014-003 dated January 24, 2014. PPSAS 17 on the valuation of the assets provides that “For consistency and uniformity, the cost model shall be adopted for all classes of PPE.” Accordingly, our present opinion on the financial statements as at December 31, 2015 is no longer disclaimer but qualified considering other significant audit observations.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Metropolitan Waterworks and Sewerage System as at December 31, 2016 and 2015, and of its financial performance and its cash flows for the year then ended and comparison of budget and actual amounts in accordance with Philippine Public Sector Accounting Standards.

Emphasis of Matter

We draw attention to Note 27 to the Financial Statements which describes the uncertainties related to the outcome for lawsuits or claims filed by third parties which are either pending in the courts or under negotiations. These cases involve, among others, lease of properties, collection of sum of money, water use conflict issues, payments of claims and protest on real property taxes and tax consequences resulting from revaluation/appraisal of its Property, Plant and Equipment. No provision for contingency is recognized in the financial statements since the outcome of said lawsuits are not presently determinable.

Report on the Supplementary Information Required Under BIR Revenue Regulation No. 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 28 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of Management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements.

COMMISSION ON AUDIT

[Signature]

MA. NANCY UY
OIC - Supervising Auditor

May 26, 2017
Republic of the Philippines
METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM

STATEMENT OF MANAGEMENT’S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The Management of Metropolitan Waterworks and Sewerage System is responsible for all information representations contained in the financial statements for the year ended December 31, 2016. The financial statements have been prepared in conformity with applicable laws and regulations and generally accepted accounting principles applied on a consistent basis and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration for materiality.

In this regard, Management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposal and liabilities are recognized.

The Commission on Audit, in pursuance of its mandate under Section 2, Article XI-D of the Philippine Constitution and pertinent provisions of Presidential Decree 1445, has audited the financial statements of the Metropolitan Waterworks and Sewerage System in accordance in accordance with laws, COA and International Organization Supreme Audit Institution (INTOSAI) standards and applicable generally accepted auditing standards and has expressed its opinion on the fairness of presentation upon completion of such examination in its report to the Board of Trustees.

LILIA N. RONDARIO
Manager, Controllership Division

PDDG REYNALDO V. VELASCO (Ret)
Administrator
# Statement of Financial Position

For the Year Ended December 31, 2016  
(With Comparative Figures as of December 31, 2015)

<table>
<thead>
<tr>
<th>Notes</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As Restated</td>
<td></td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>4 &amp; 5</td>
<td>3,353,545,459</td>
</tr>
<tr>
<td>Accounts receivables, net</td>
<td>4 &amp; 6</td>
<td>558,036,271</td>
</tr>
<tr>
<td>Other receivables</td>
<td>7</td>
<td>5,623,742,520</td>
</tr>
<tr>
<td>Prepayments</td>
<td>8</td>
<td>895,582,470</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10,430,906,720</td>
</tr>
<tr>
<td>Non-Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td>4 &amp; 9</td>
<td>45,242,421,078</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>4 &amp; 10</td>
<td>677,033,489</td>
</tr>
<tr>
<td>Investments</td>
<td>11</td>
<td>401,877,646</td>
</tr>
<tr>
<td>Other assets, net</td>
<td>12</td>
<td>1,419,198,118</td>
</tr>
<tr>
<td></td>
<td></td>
<td>47,740,530,331</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>58,171,437,051</td>
<td>66,582,220,550</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>LIABILITIES AND EQUITY</strong></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payable accounts</td>
<td>13</td>
<td>983,403,832</td>
</tr>
<tr>
<td>Inter-agency payables</td>
<td>14</td>
<td>149,898,803</td>
</tr>
<tr>
<td>Intra-agency payable</td>
<td>15</td>
<td>1,125,075</td>
</tr>
<tr>
<td>Current portion of long-term liabilities</td>
<td>17</td>
<td>766,669,889</td>
</tr>
<tr>
<td>Other liability accounts</td>
<td>16</td>
<td>528,945,896</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,430,043,495</td>
</tr>
<tr>
<td><strong>Non-Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term liabilities, net of current portion</td>
<td>17</td>
<td>8,898,844,365</td>
</tr>
<tr>
<td>Deferred credits</td>
<td>18</td>
<td>1,840,979,556</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10,739,823,921</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>13,169,867,416</td>
<td>14,090,930,871</td>
</tr>
</tbody>
</table>

| 19,20,21 | Equity | 45,001,569,635 | 52,491,289,679 |
| & 30 | **TOTAL LIABILITIES AND EQUITY** | 58,171,437,051 | 66,582,220,550 |

See accompanying Notes to Financial Statements.
METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM
STATEMENT OF FINANCIAL PERFORMANCE
For the Year Ended December 31, 2016
(With Comparative Figures for the Year Ended December 31, 2015)

<table>
<thead>
<tr>
<th>Notes</th>
<th>2016</th>
<th>2015 As Restated</th>
</tr>
</thead>
</table>

**REVENUES**

Concession fees
- Debt service 4 & 22: 1,554,341,919
- Concession income: 993,105,901
- Progress billing: 53,035,195

Total Revenues: 2,600,483,015

Business income
- Interest on investments and deposits 4 & 22: 67,432,385
- Rental of leased properties: 95,679,346
- Raw water: 74,428,065
- Gain on disposed assets: 22,365
- Miscellaneous income: 215,391
- Other fines and penalties: 3,230

Total Business Income: 237,780,782

**EXPENSES**

Personal services 23: 119,732,152
Maintenance and other operating expenses 24: 101,471,894

Non-cash expenses
- Depreciation: 1,119,411,070
- Amortization: 8,122,603
- Financial expenses 26: 502,784,89
- (Gain) loss on foreign exchange, net 4 & 22: 510,677,154

Total Non-cash expenses: 2,362,199,763

**NET INCOME Before Income Tax**

476,064,034

**Income Tax**

10,798,509

**NET INCOME**

465,265,525

See accompanying Notes to Financial Statements.
## METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM
### STATEMENT OF CHANGES IN NET ASSETS/EQUITY
**For the Year Ended December 31, 2016**
(With Comparative Figures for the Year Ended December 31, 2015)

<table>
<thead>
<tr>
<th>Notes</th>
<th>2016</th>
<th>2015 Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAPITAL STOCK</strong></td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Authorized - 80 million shares, P100 par</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued and outstanding 60,954,867.84 shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, beginning</td>
<td><strong>6,095,486,784</strong></td>
<td><strong>6,095,486,784</strong></td>
</tr>
<tr>
<td>Additions (deductions)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Balance, end</td>
<td><strong>6,095,486,784</strong></td>
<td><strong>6,095,486,784</strong></td>
</tr>
</tbody>
</table>

| **DONATED CAPITAL** | 20         |               |
| Balance, beginning | **1,046,970,979** | **1,046,970,979** |
| Additions (deductions) | 0          | 0             |
| Balance, end | **1,046,970,979** | **1,046,970,979** |

| **APPRAISAL CAPITAL** | 21         |               |
| Balance, beginning | 36,382,889,359 | 35,699,457,689 |
| Additions (deductions) | (7,954,985,569) | 683,432,287 |
| Balance, end | 28,427,903,790 | 36,382,889,679 |

| **RETAINED EARNINGS (DEFICIT)** | 30         |               |
| Balance, beginning | 8,965,942,557 | 1,278,854,598 |
| Adjustments | 0          | 7,816,192,089 |
| Adjusted Beginning Balance | 8,965,942,557 | 9,095,046,687 |
| Dividends | 0          | (362,089,381) |
| Net profit (loss) | 465,265,525 | 232,985,251 |
| Balance, end | 9,431,208,082 | 8,965,942,557 |

| **TOTAL EQUITY** |               |               |
| **45,001,569,635** | **52,491,289,679** |

*See accompanying Notes to Financial Statements.*
### Statement of Cash Flows

**For the Year Ended December 31, 2016**

(With Comparative Figures for the Year Ended December 31, 2015)

<table>
<thead>
<tr>
<th>Notes</th>
<th>2016</th>
<th>2015 As Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collection of concession fees</td>
<td>2,670,757,020</td>
<td>1,962,718,154</td>
</tr>
<tr>
<td>Collection of business income</td>
<td>178,748,002</td>
<td>325,461,927</td>
</tr>
<tr>
<td>Other collections</td>
<td>147,269,430</td>
<td>86,637,875</td>
</tr>
<tr>
<td>Payment of operating expenses</td>
<td>(273,338,415)</td>
<td>(447,884,040)</td>
</tr>
<tr>
<td>Other expenditures</td>
<td>(10,872,886)</td>
<td>(11,170,092)</td>
</tr>
<tr>
<td><strong>Net cash flows from operating activities</strong></td>
<td>2,712,563,151</td>
<td>1,915,763,824</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM INVESTING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment to Province of Bulacan for ADDSP</td>
<td>(504,610,000)</td>
<td>0</td>
</tr>
<tr>
<td>Investments in special reserve fund</td>
<td>(19,814,643)</td>
<td>(10,080,914)</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>(564,307,977)</td>
<td>(13,237,213)</td>
</tr>
<tr>
<td><strong>Net cash flows used in investing activities</strong></td>
<td>(1,088,732,620)</td>
<td>(23,318,127)</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM FINANCING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan proceeds</td>
<td>505,001,691</td>
<td>553,300,000</td>
</tr>
<tr>
<td>Debt servicing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td>(1,222,537,614)</td>
<td>(978,331,205)</td>
</tr>
<tr>
<td>Interest and other charges</td>
<td>(406,669,686)</td>
<td>(404,758,179)</td>
</tr>
<tr>
<td>Payment of prior year's dividends to National Government</td>
<td>(150,000,000)</td>
<td>(508,607,849)</td>
</tr>
<tr>
<td><strong>Net cash flows used in financing activities</strong></td>
<td>(1,274,205,609)</td>
<td>(1,338,397,233)</td>
</tr>
<tr>
<td>Effects of exchange rate changes on cash and cash equivalents</td>
<td>947,517</td>
<td>8</td>
</tr>
<tr>
<td><strong>NET INCREASE IN CASH AND CASH EQUIVALENTS</strong></td>
<td>350,572,439</td>
<td>554,900,982</td>
</tr>
<tr>
<td><strong>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</strong></td>
<td>3,002,973,020</td>
<td>2,448,072,038</td>
</tr>
<tr>
<td><strong>CASH AND CASH EQUIVALENTS AT END OF YEAR</strong></td>
<td>3,353,545,459</td>
<td>3,002,973,020</td>
</tr>
</tbody>
</table>

*See accompanying Notes to Financial Statements.*
## METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM
### STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
#### For the Year Ended December 31, 2016

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Notes</th>
<th>Budgeted Amounts</th>
<th>Actual Amounts on Comparable Basis</th>
<th>Difference of Final Budget and Actual Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Original</td>
<td>Final</td>
<td></td>
</tr>
<tr>
<td>Concession Fee</td>
<td></td>
<td>981,333,000</td>
<td>993,105,901</td>
<td></td>
</tr>
<tr>
<td>Concession Income</td>
<td></td>
<td>1,674,584,000</td>
<td>1,554,341,919</td>
<td></td>
</tr>
<tr>
<td>Debt Service</td>
<td></td>
<td>1,025,521,000</td>
<td>53,035,195</td>
<td></td>
</tr>
<tr>
<td>Progress Billing</td>
<td></td>
<td>204,862,000</td>
<td>237,755,187</td>
<td></td>
</tr>
<tr>
<td>Business Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Non-operating Receipts</td>
<td></td>
<td>1,150,534,000</td>
<td>505,001,691</td>
<td></td>
</tr>
<tr>
<td>Loan Proceeds</td>
<td></td>
<td>591,682,000</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td></td>
<td>5,628,516,000</td>
<td>4,980,565,000</td>
<td>3,343,239,893</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payments</th>
<th>Notes</th>
<th>Budgeted Amounts</th>
<th>Actual Amounts</th>
<th>Difference of Final Budget and Actual Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Personnel Services</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Maintenance and Other Operating Expenses</td>
<td>230,059,000</td>
<td>186,294,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Capital Outlay</td>
<td>480,303,000</td>
<td>437,594,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other Disbursements</td>
<td>410,738,000</td>
<td>410,738,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Loan Repayment (Financial Expenses)</td>
<td>3,859,465,000</td>
<td>3,859,465,000</td>
</tr>
<tr>
<td><strong>Total Payments</strong></td>
<td></td>
<td>3,859,465,000</td>
<td>3,894,091,000</td>
<td>2,510,834,527</td>
</tr>
<tr>
<td><strong>NET RECEIPTS</strong></td>
<td></td>
<td>647,951,000</td>
<td>86,474,000</td>
<td>832,405,366</td>
</tr>
</tbody>
</table>

See accompanying Notes to Financial Statements

### RECONCILIATION STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS AND THE STATEMENT OF FINANCIAL PERFORMANCE

Reconciliation between actual amount on a comparable basis as presented in this statement and in the Statement of Financial Performance for the Year Ended December 31, 2016

<table>
<thead>
<tr>
<th>Reconciliation Item</th>
<th>Income</th>
<th>Personal Services</th>
<th>MODE</th>
<th>Capital Outlay</th>
<th>Loan Repayment (Financial Expenses)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comparison Statement of Budget and Actual</td>
<td>3,343,239,893</td>
<td>119,732,152</td>
<td>101,471,894</td>
<td>564,307,977</td>
<td>1,725,322,504</td>
</tr>
<tr>
<td>Income not included in the budget</td>
<td>22,365</td>
<td>3,230</td>
<td>(505,001,691)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgetary Items not considered as income</td>
<td>Loan Proceeds</td>
<td>(505,001,691)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgetary Items not considered as expenses</td>
<td>Loan Repayment (Principal portion)</td>
<td>(1,222,537,614)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>564,307,977</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per Statement of Financial Performance</td>
<td>2,838,263,797</td>
<td>119,732,152</td>
<td>101,471,894</td>
<td>0</td>
<td>502,784,890</td>
</tr>
</tbody>
</table>
1. Corporate Information

The Metropolitan Waterworks and Sewerage System (MWSS) or the System is a government-owned and controlled corporation created under Republic Act No. 6234 which was approved on June 19, 1971 replacing the National Waterworks and Sewerage Authority. The System is an attached agency to the Department of Public Works and Highways. Its main objective is to ensure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes to its consumers at just and equitable rates. It also aims to provide sewerage and sanitation services to the public. MWSS owns and has jurisdiction over all waterworks and sewerage system of all the cities and municipalities of Metro Manila, and some municipalities of Cavite and Bulacan.

The MWSS registered office and place of business is at Katipunan Road, Balara, Quezon City.

Because of the felt need for the government to adopt urgent and effective measures and to address the nationwide water crisis which adversely affected the health and well-being of the public, legislators passed into law Republic Act No. 8041, otherwise known as the National Water Crisis Act of 1995, implemented under Executive Order No. 286 dated December 6, 1995, which reorganized the MWSS. The passage of Executive Order No. 311 on March 20, 1996 encouraged the private sector’s participation in the operation of the facilities of MWSS and paved the way for its privatization.

Pursuant to a process of a competitive public bidding and selection, MWSS’ operations were privatized. Thus, on February 21, 1997, MWSS entered into a Concession Agreement (CA) with two private companies (Concessionaires), namely, the Manila Water Company Incorporated (MWCI) and the Maynilad Water Services Incorporated (MWSI), granting them the rights to manage, operate, repair, decommission and refurbish the Facilities in the Service Area, including the right to bill and collect for water and sewerage services supplied in the Service Area. MWCI operates on the east zone while MWSI services the west zone. The two concessionaires formally took over the operations of MWSS on August 1, 1997. In addition to the performance of the service obligations, the concessionaires are required, under the CA, to pay MWSS concession fees in consideration for such right.

As a result of the privatization in 1997, MWSS is now divided into two Offices, the MWSS-Corporate Office and the MWSS- Regulatory Office.

On March 8, 2001, due to financial difficulties, Maynilad suspended payment of concession fees. From March 2001 to July 2001, MWSS used its own funds to meet the maturing obligations of Maynilad. Thereafter, from July 2001 to 2006, MWSS had to obtain a number of loans from various banks and financial institutions to meet its maturing obligations and expenses which the (unpaid) concession fees from Maynilad were supposed to cover.

Despite continuous negotiations, several disputes between Maynilad and MWSS led the former to issue a “Notice of Early Termination of the Concession” on December 9, 2002. On January 7, 2003, MWSS arbitration proceedings were commenced and on November 7, 2003, the Appeals Panel for Major Disputes ruled that (1) there was no MWSS or Concessionaire Event of Termination under Article 10 of the CA, (2) the parties should continue to perform their obligations under the CA until the expiration thereof, (3) MWSS may draw on the USD120 million Performance Bond. The Arbitration Order became final on November 22, 2003.
During the pendency of the corporate rehabilitation proceedings, and prior to the drawing on the USD120M Performance Bond, MWSS had to seek funding from other sources to meet its maturing obligations and operating expenses. As a result, on March 16, 2004, MWSS with the Republic as Guarantor, and BNP Paribas, entered into a Subscription Agreement wherein BNP Paribas agreed to subscribe to the MWSS-BNP Notes.

On April 29, 2005, Maynilad submitted to the Rehabilitation Court its 2005 Rehabilitation Plan incorporating the terms and conditions of the Debt and Capital Restructuring Agreement (DCRA) executed between Maynilad, MWSS, Benpress Holdings Corporation, the Suez Group and other lenders. On June 1, 2005, the Rehabilitation Court approved the 2005 Rehabilitation Plan, including the DCRA.

Under Clause 2.6 of the DCRA, MWSS was given the right to subscribe to 83.97% of the shares of Maynilad. On September 8, 2005, the MWSS Board of Trustees resolved to assign the MWSS Subscription Rights pursuant to Clause 24 of the DCRA. After going through the process of competitive public bidding, DMCI-MPIC Water Company, Inc. (DWCI) was awarded the MWSS Subscription Rights and the right to acquire receivables of MWSS, subject to the conditions imposed under the DCRA. On December 27, 2006, MWSS and DWCI entered into an Assignment and Assumption Agreement (AAA) to formalize the award.

In accordance with the AAA, DWCI, decided to effect the early exit of Maynilad from rehabilitation proceeding by contributing cash to the latter and enabling the latter to prepay, among others, its obligations to MWSS under the DCRA. To implement this, DWCI entered into a Prepayment and Settlement Agreement (PSA) with Maynilad, MWSS, the Suez Group and other lenders on August 9, 2007.

Thereafter, Maynilad MWSS, the Suez Group, and other creditors of Maynilad filed a Joint Omnibus Motion dated August 14, 2007. Acting on the Joint Omnibus Motion, the Rehabilitation Court issued an order dated December 19, 2007 (1) immediately approving the PSA, (2) declaring that Maynilad had successfully implemented the 2005 Rehabilitation Plan subject to the fulfillment of certain conditions, and (3) disallowing the disputed or unresolved claims of MWSS and the Suez Group. On February 6, 2008, the Rehabilitation Court issued another order confirming the December 19, 2007 Order, declaring that the conditions in its previous order have been met, and releasing Maynilad from the corporate rehabilitation proceedings.

During the 11th year of the implementation of the Concession Agreement, the Parties, MWSS and MWCI and Maynilad (under a new Sponsor, DMCI) identified and discussed the option of renewing/extend the Concession Agreement pursuant to the following government policies:

- To increase investments in water and wastewater improvement projects, to pursue the mandate of the government to accelerate waste water projects, to comply with the Clean Water Act and the recent Supreme Court decision for the clean-up and preservation of Manila Bay, and sufficient concession fees to support the implementation of new water source projects as enumerated in the Final Business Plan;
- To mitigate the impact on tariff increases through the renewal/extension of the Concession Agreement.

On October 19, 2009, the DOF transmitted to the MWSS, the signed letter of Consent and Undertaking in behalf of the Republic of the Philippines the approval of extension of the Concession Agreement of MWCI to an additional of 15 years from 7 May 2022 to 6 May 2037.

On March 17, 2010, the DOF thru the MWSS, again transmitted the signed Letter of Undertaking in behalf of the Republic of the Philippines another approval of 15 years extension of the Concession Agreement of the Maynilad from 6 May 2022 to 6 May 2037.
The Term Extension committed the Concessionaires to increase by 100% the concession fees (Corporate Operating Budget or COB) of the MWSS Corporate Office and the Regulatory Office.

**CY 2013 Rate Rebasing Exercise**

In CY 2013 Rate Rebasing was performed which served as basis for reviewing the performance as well as to determine the new business plan that the MWCI and MWSI will undertake. The exercise will also ensure that notwithstanding the changes in the economic and operating assumptions, both concessionaires will be able to recover all its expenditures (Opex, Capex and Income Taxes), plus guaranteed rate of return. As such, the exercise will serve as one of the major drivers of tariff adjustments under the Concession Agreement.

Section 9.2 of the CA provides that the Standard Rates for water and sewerage services shall be adjusted each year effective January 1 of each Charging Year. In accordance with the (i) the Rate Adjustment Limit set forth in Section 9.2.1., (ii) the adjustment principles set forth in Section 9.2.2 and (iii) the procedures set forth in Sec. 9.2.3.

Rate Adjustment Limit (RAL) is defined as the percentage, either positive or negative, equal to the sum of “C” or the percentage change in the Consumer Price Index, “E” or Extraordinary Price Adjustment and “R” or the Rate Rebasing Convergence Adjustment.

**Manila Water Company, Inc. (MWCI)**

On March 30, 2012, the Concessionaire filed a petition for the determination of its “R: factor for the 3rd Rate Rebasing (RR), proposing an upward adjustment of 22.79% of its average basic water charge or P5.83 per cubic meter beginning January 1, 2013.

After careful study, the MWSS Board of Trustees resolved and adopted the recommendation of the RO:

a. To deny Manila Water’s petition for an upward adjustment of its average basic water charge; and

b. To approve and effect a negative adjustment of 29.47% of its 2012 average basic water charge of P24.57 per cu.m. to be implemented in five equal tranches of negative 5.894% per Charging year.

MWCI objected to MWSS RR determination and commence arbitration under the 1976 United National Commission on International Trade Law Arbitration Rules, in the case entitled Manila Water Company, Inc. vs. MWSS and Regulatory Office which was subsequently docketed with the International Chamber of Commerce (ICC) as Case No. UNC 136/CYK.

On February 27, 2015, the RO received a copy of the Partial Award in ICC Case No. UNC136/CYK. The dispositive portion reads:

a. Corporate Income Tax (CIT) is not allowed Expenditures under the CA;

b. The Appropriate Discount Rate should not be computed fully pre-tax; and

c. Each Party is to bear its own legal and other costs. The cost of the arbitration including the fees and expenses of the Appeals Panel are to be borne equally by MWSS and MWCI.

On April 21, 2015, the RO received a copy of the Final Award in ICC Case No. UNC136/CYK. The dispositive portion reads:
a. Affirm that the parties have reached agreement on the Rate Rebasing Adjustment after taking to
account the Partial Award dated 26 February 2015;

b. 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 charge of P25.07 per cu.m. or negative
P2.77 per cu.m. to be implemented in 5 equal tranches of negative 2.21% per charging year,
pursuant to Article 9.4.3 (ii) of the CA; and

c. Order that each party is to bear its own legal and other costs.

On April 30, 2015, the RO transmitted its Resolution No. 2015-0905-CA to the MWSS Board of Trustees
containing the MWCI’s determination of 2015 Rate Adjustment Limit as follows:

a. To set the 2015 RAL of Manila Water at negative 2.42% to be applied on the prevailing basic
charge; and

b. To recommend the publication of the 2015 Table of Standard Rates for Manila Water pursuant
to the requirement under Section 12 of the MWSS Charter that such “rates and fees shall be
effective and enforceable fifteen (15) days after publication in a newspaper of general circulation.

Board Resolution No. 2015-058-RO dated May 8, 2015 resolved, approved and confirmed the above
recommendation. The Rate Adjustment of Manila Water will take effect on June 1, 2015.

Maynilad Water Services Inc. (MWSI)

On March 30, 2012, the MWSI filed a petition for the determination of its “R: factor for the 4th Rebasing
Period (2013-2017), proposing an upward adjustment of 24.69% of its average basic water charge or
P7.41 per cubic meter beginning January 1, 2013.

On September 14, 2012, Maynilad revised their proposed rate adjustment to 34.06% of its average basic
charge – or an equivalent increase of P10.31 per cu.m.

Pending the final determination of the “R", Maynilad in a letter dated November 26, 2012, sought an
interim rate increase of at least 20% of P2.06 per cu.m. of the anticipated “R” based on its September
2012 Business Plan. The MWSS Board of Trustees, upon the recommendation of the RO in Resolution
No. 2012-010-CA dated December 3, 2012, declined Maynilad proposed interim rate increase, but
allowed the “C” factor of 3.2%.

After careful study, the MWSS Board of Trustees resolved and adopted the recommendation of the RO:

a. To deny Maynilad’s petition for an upward adjustment of its 2012 average basic water charge;

b. To approve and effect a negative adjustment of 4.82% of its 2012 average basic water charge
of P30.28 per cu.m. to be implemented in five equal tranches of negative 0.964% per Charging
year; and

c. Discontinuance of the Current Exchange Rate Adjustment (CERA).

Maynilad objected to MWSS RR determination and commence arbitration under the 1976 United National
Commission on International Trade Law Arbitration Rules, in the case entitled Maynilad Water Services, Inc.
vs. MWSS and Regulatory Office which was subsequently docketed with the International Chamber of
Commerce as Case No. UNC 141/CYK.
Maynilad argued that the RO erred in the Rate Rebasing Determination and enumerated the following grounds for its objection to and disagreement with the same:

1. Unauthorized disallowance of corporate income tax;
2. Incorrect estimate of the ADR for Future Cash Flows (FCF);
3. Unauthorized adjustments to the Opening Cash Position (OCP) set during the last Rate Rebasing;
4. Improper addition of Guaranty Deposits to Maynilad’s historical and future receipts; unreasonable and improper disallowances in other expenditures in the OCP; and
5. Unreasonable and improper adjustment to other expenditures in the FCF.

On December 29, 2014, the Appeals Panel in the Maynilad dispute promulgated its Final Award as follows:

1. By majority, finds that the Maynilad is entitled to include its Corporate Income Tax (CIT) in its Future Cash Flows for each year of operation;
2. By majority, upholds Claimant’s alternative Rebasing Adjustment for the 4th Rate Rebasing Period of 13.41%, which means an average basic water charge of P30.28 per cu.m. resulting in an adjusted rate of P34.34 per cu.m for every charging year of the 4th Rate Rebasing Period;
3. Unanimously decides that each Party shall bear its own legal costs and that the costs of the arbitration shall be borne by the Parties equally;
4. Unanimously orders Respondents to reimburse to Claimant the sums of USD15,012.50, Php540,502.81 and HKD179.73, representing Respondents’ share of the costs of the arbitration that were advanced by the Claimant; and
5. Dismiss all other claims.

Finding the conclusion reached by the Appeals Panel in the Maynilad Dispute as directly in contrast to the conclusions reached in the MWCI Dispute, the MWSS Board of Trustees after thorough deliberation of the RO and Maynilad, granted the request of Maynilad on certain terms in the implementation of the Rate Adjustment as follows:

1. Consistent with the RO Resolution No. 2012-010-CA dated December 3, 2012 and MWSS Board Resolution No. 2012-165 dated December 7, 2012, Maynilad shall receive the “C” factor of the RAL pending the final resolution of the “R”;
2. Consistent with RO Resolution No. 13-008-CA dated September 6, 2013 and MWSS Board Resolution No. 2013-100-RO dated September 12, 2013, Maynilad shall no longer collect CERA;
3. Consistent with RO Resolution No. 2015-004-CA dated March 25, 2015 and MWSS Board Resolution No. 2015-039-RO dated March 31, 2015, Maynilad will not charge the CIT component of its alternative “R: pending a more definite ruling by a court of justice on the CIT issue; and
4. Consistent with RO Resolution No. 2014-002-CA dated December 17, 2014 and MWSS Board
Resolution No. 2013-129-RO dated December 12, 2014, which restored the FCDA adjustments, the proposal will bring regularity to the rate adjustment mechanism under the CA.

On May 14, 2015, MWSS Board Resolution No. 2015-060-RO resolved, approved and confirmed the resolutions of the RO as follows:

a. To set the 2015 RAL for Maynilad at 7.52% to be applied on the prevailing basic charge;

b. To implement the discontinuance of the charging the CERA; and

c. To recommend the publication of the 2015 Table of Standard Rates for Maynilad pursuant to the requirement under Section 12 of the MWSS Charter that such “rates and fees shall be effective and enforceable fifteen (15) days after publication in a newspaper of general circulation.”

The Rate Adjustment of Maynilad will take effect June 1, 2015.

Meanwhile, the issue on the CIT now elevated to the Supreme Court is an urgent and real issue for the SC to decide. Early resolve for the issue at hand was manifested.

**SOURCES OF FUNDS**

The following are the sources of funds of MWSS:

- Concession fees collected
- Rentals on leased properties
- Interest income on investments
- Loan availments from foreign and domestic financial institutions
- Collection of raw water and accounts receivable
- Other incidental revenues

**STRATEGIC INITIATIVES AND WATER SECURITY LEGACY BUBBLE**

**Water Security Legacy (WSL) Roadmap** – MWSS is driven by the Water Security Legacy Roadmap and is composed of seven legacies to help ensure a more holistic, long-term and sustainable approach to water service for Metro Manila and its outskirts. These legacies are:

a. Legacy 1 – Water Resources and Infrastructure Management, Development and Protection

b. Legacy 2 – Water Distribution Efficiency

c. Legacy 3 – Sewerage and Sanitation Compliance

d. Legacy 4 – Water Rates Reviews and Rationalization

e. Legacy 5 – Organization Excellence

f. Legacy 6 – Partnership Development

g. Legacy 7 – Communication and Knowledge Management

**Strategic Initiatives** – MWSS – CO hereby commits to undertaking the following key programs and/or projects identified as having a significant impact on its Performance Scorecard:

a) **Strategic Initiative 1 – New Centennial Water Supply Source Project (NCWSP) - Kaliwa Dam Project (P18.72 billion)**
• Fund Source: Private Proponent under PPP scheme
• Involves the financing, design and construction of a raw water supply source with a capacity of 600 MLD, through the commissioning of the Kaliwa Dam, including intake facilities and other pertinent facilities
• Part of the Project is a water conveyance tunnel intended to supply 2,400 MLD of raw water for Metro Manila, thereby reducing heavy dependence on the Angat Dam reservoir.
• Status: There is an on-going coordination with DPWH relative to the signing of MOA for the joint implementation of the Project; Bidding documents were already completed but still to be approved by the Joint Special Bids and Awards Committee (JSBAC) and the new MWSS Board (still to be appointed by the President); On-going coordination with the other LGUs relative to their endorsements of the Project, including with the NCIP and PAMB for the required clearance. Indicative Timeline: Date of construction – October 2017 while Target completion Date is October 2022.

b) Strategic Initiative 2 – Bulacan Bulk Water Supply Project (BBWSP) (P16.32 billion)
• Funding Source: Private Proponent under PPP scheme
• Aims to provide clean and affordable treated water, will be implemented in three stages, covering 24 water service providers (WSPs) serving 21 municipalities and three cities in Bulacan.
• Will involve the development of surface water source facilities and new groundwater sources; provision of water treatment facilities and lift and booster pump stations; and the installation of new conveyance/transmission lines, among others.
• Status: Detailed Engineering Design (DED) completed; Financial Close completed; Construction of Water Treatment Plant is on-going (5% physical accomplishment); Shortlisting of consultants for construction supervision was already completed (awaiting approval from the new MWSS Board, which are still to be appointed by the President). Indicative Timeline: Date of Start for Stage 1 is September 2016 while for Stage 2 is September 2017; Target Completion date for Stage 1 is March 2018 while for Stage 2 is September 2018.

c) Strategic Initiative 3 – Angat Water Transmission Improvement Project (AWTIP) (US$133.98M)
• Funding Source: Loan and GOP counterpart funded by Concession Fees
• Aims to improve the reliability and security of the Angat raw water transmission system through the rehabilitation of existing conveyance and appurtenances from Ipo Dam to the La Mesa Treatment Plant.
• Involves the construction of an additional tunnel, which will allow the alternate closing of older tunnels and aqueducts in the conveyance system. This will enable the conduct of necessary inspection and rehabilitation of portions of the systems without interrupting the transmission of water.
• Status: Detailed Engineering Design (DED) completed; On-going mobilization and preparatory works for construction; Procurement of consultants for the review of DED and construction management is ongoing; Issuance of Request for Proposal (RFP) documents for the six (6) shortlisted bidders is still pending due to the absence of approving authority (the MWSS Board). Latest Indicative timeline: Date of start is May 2016 and target completion date is September 2020.
d) Strategic Initiative 4 - Angat Dam and Dykes Strengthening Project (ADDSP)

- National Government released P553 million on April 2015
- Involves the strengthening of the dam/dyke & auxiliary spillway, installation of flood forecasting and warning system on dam operation and flood protection works to ensure structural integrity of the dam and dyke and to increase dam storage capacity.
- Aims to mitigate risks as a result of the dam being on the West Valley Fault. It will include the installation of flow forecasting and warning systems beneficial to downstream towns and cities.
- Status: Instead of MWSS, the strengthening works of the dam and dyke is being implemented and funded by Angat Hydropower Corporation (AHC), the new Owner/Operator of the Angat Hydro Electric Power Plant (AHEPP), pursuant to their contract obligation to undertake mandatory rehabilitation of Angat Dam. However, contract package 2 (dam instrumentation) and contract package 4 (flood protection works) of ADDSP in the total cost of P553.30 Million remains to be the responsibility of the government, thus MWSS, as allowed by the DBM and NEDA, transferred the funds directly to the agency mandated to implement contract packages 2 & 4, which are the National Power Corporation (NPC) and the Provincial Government of Bulacan (PGB), respectively. Corresponding MOAs were executed for the subject transfer of funds and its implementation: a) Strengthening works: construction works is on-going being undertaken by Hanjin, the contractor engaged by AHC. b) Dam Instrumentation: Six (6) out of seven (7) contract packages were already awarded and are now on-going. Contract Package #7 is still under bidding stage with on-going post classification. c) Flood protection works: construction works is on-going wherein 3 out of 10 contract packages were already completed.
- Indicative Timeline: Started construction in 3rd Quarter of 2016 and completion date is 2nd Quarter of 2018.

e) Strategic Initiative 5 - Rehabilitation, Operation and Maintenance of MWSS-owned Auxiliary turbines 4 and 5 of the Angat Hydro-Electric Power Plant (AHEPP)

- Funding Source: Private Proponent under PPP Scheme
- The Project involves the opportunity to optimize the benefit from the MWSS-owned auxiliary turbines 4 & 5 by developing the hydropower generation component, a “by-product” of water releases.
- Status: Due to the failure of the first bidding and the issue of sharing of facilities with Angat Hydropower Corporation (AHC), the new owner/operator of the Angat Hydro-electric Power Plant (AHEPP), the MWSS sought NEDA Board’s approval to negotiate directly with AHC and an exemption from the 2013 NEDA Joint Venture Guidelines; the NEDA in its letter to MWSS date 28 July 2016 responded that they cannot grant the exemption of the Project from the required competitive challenge under the 2013 JV Guidelines. In addition, NEDA informed that MWSS may seek an opinion from the OGCC on whether a negotiated JV may be pursued for the Project under the 2013 JV Guidelines; Hence, MWSS wrote OGCC on 21 September 2016 in compliance with NEDA’s advice/comments. The OGCC responded in its Opinion No. 165 dated 24 October 2016 that MWSS may pursue a negotiated Joint Venture under the 2013 JV Guidelines and should observe the procedure for negotiated JV and must comply with the documentary requirements required by the 2013 JV Guidelines; Awaiting guidance from the new MWSS Board, who are still to be appointed by the President.
f) **Strategic Initiative 6 – Sumag Diversion Project**

- **Funding Source:** Concessionaire’ Fund through the Common Purpose Facility (CPF)
- **Aims:** To provide additional raw water (188 MLD) from Sumag River in Gen Nakar, Quezon which will be diverted to Umiray Tunnel to augment water supply in Angat Dam.
- **Proposed project involves:** The construction of appurtenant structures of Tyrolean Type Weir, Intake, Desilting Basis with Sluice Way, Transition Channel, Cut and Cover, Tunnel (600 linear meters with 2.70 meters diameter), Open Channel and Intrasite Access connecting to the UATP.
- **Status:** The construction works is still suspended upon the Order of LGU Quezon due to the incident last 13 August 2016 that resulted to the death of six (6) persons. The CPF is still to comply with the LGU requirements prior to resumption of works; Proposed time Extension No. 2 is in process; 67.79% physical accomplishment as of 31 July 2016.

g) **Rehabilitation of Umiray Facilities**

- **Funding Source:** Concessionaire Fund’ through the Common Purpose Facility (CPF)
- **Rehabilitation and strengthening:** of existing tunnel structures/facilities to withstand future typhoons and in order to ensure the continuous flow of raw water from the Umiray River to the Angat Reservoir.
- **Status:** The construction works is also suspended due to the incident in the Sumag Project. The CPF is still to comply with the same LGU requirements prior to resumption of works; 37.87% physical accomplishment as of 31 July 2016.

h) **Acquisition of 7.5 cms from National Irrigation Administration (NIA)**

- **In the collective desire of both MWSS and NIA:** to properly manage the water supply from the Angat Reservoir, the Parties agreed to settle pending issues regarding water allocation and use of water from the Angat Reservoir which includes NIA’s claim for compensation for (i) opportunity losses due to reallocation of water supply from 2000 to 2010 as set out in NIA’s letter dated June 14, 2011; and (ii) the reduction of NIA’s water rights allocation from 15 cms to 7.5 cms.
- **In the process,** the MWSS agreed to deliver to NIA the amount of P52M Financial Assistance as and by way of final settlement of NIA’s claim for compensation for NIA’s Opportunity Losses.
- **MWSS shall also deliver to NIA** the amount of P1B (Compensation) to be sourced from MWSS’ Concessionaires the same being part of 2013 Approved Business Plans of the Concessionaires, as and by way of full and final settlement of NIA’s claim for Compensation for the 7.5 cms out of the 15 cms granted to MWSS as Additional allocation under NWRB Resolution and MWSS Water Permit.
- **Status:** MOA between MWSS and NIA was signed on 11 May 2015; Joint Petition letter of MWSS and NIA to NWRB requesting the latter to effect the corresponding amendments to NIA and MWSS’ water permits forwarded to NWRB on 12 May 2015; The Project has already been awarded and started in November 2016.
MWSS Corporate Office has an approved Reorganization based on GCG Memorandum Circular No. 2013-17.

The ultimate customers of both MWSS and Concessionaires are the general public to whom it serves potable water and sewerage and sanitation services in its service area. This is a system for obtaining feedback from our direct customers. The UP-CIDS did the study in 2016 and final report is for presentation to the new Board this March 2017.

2. **Basis of Financial Statement Preparation**

The accompanying financial statements have been prepared in accordance with applicable Philippine Accounting Standards as aligned with the International Financial Reporting Standards using the historical cost basis and are presented in Philippine pesos, which is the System’s functional and presentation currency. All values are rounded to the nearest thousand. The financial statements of the MWSS Corporate Office and the Regulatory Office are consolidated in this report.

3. **Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year. Since 2005, the System is already adopting the International Financial Reporting Standards (IFRS). These accounting standards are as follows:

- **PAS 1, Presentation of Financial Statements**, (a) provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; (b) provides the base criteria for classifying liabilities as current or non-current; (c) prohibits the presentation of income from operating activities and extraordinary items in the statement of income; and (d) specifies the disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying the company’s policies.

- **PAS 2, Inventories**, reduces the alternatives for measurement of inventories by disallowing the use of the last in, first out formula. Moreover, the revised accounting standards does not permit foreign exchange differences arising directly on the recent acquisition of inventories invoiced in foreign currency to be included in the cost of purchase of inventories.

- **PAS 7, Statement of Cash Flows**, provides information about the cash flows of an entity which is useful in providing users of financial statements with basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows.

- **PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors**, (a) removes the concept of the fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors; (b) updates the previous hierarchy of guidance to which management refers and whose applicability it considers when selecting accounting policies in the absence of standards and interpretations that specifically apply; (c) defines materials omission or misstatements; and (d) describes how to apply the concept of materiality when applying accounting policies and correcting errors.

- **PAS 10. Events after the Balance Sheet Date**, provides a limited clarification of the accounting for dividends declared after the balance sheet date.
• PAS 16, *Property, Plant and Equipment*, (a) provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment (b) requires the capitalization of the costs of asset dismantling, removal or restoration as a result of either acquiring or having used the asset for purposes other than to produce inventories during the period; and (c) requires measurement of an item of property, plant and equipment acquired in exchange for a non-monetary asset or a combination of monetary and non-monetary assets at fair value, unless the exchange transaction lacks commercial substance. Under the previous version of the standard, an entity measured such an acquired asset at fair value unless the exchanged assets were similar.

• PAS 17, *Leases*, prescribes for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to leases.

• PAS 18, *Revenue*, prescribes the accounting treatment of revenue arising from certain types of transaction and events. The primary issue in accounting for revenue is determining when to recognize revenue.

• PAS 19, *Employee Benefits*, prescribes the accounting and disclosure for employee benefits. It requires an entity to recognize: (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

• PAS 21, *The Effects of Changes in Foreign Exchange Rates* eliminates the deferral/capitalization of foreign exchange differentials. The adoption of the standard resulted in the recognition of gain or loss on foreign exchange transactions.

• PAS 23 (Revised), *Borrowing Costs*, prescribes that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall form part of the cost of that asset. Other borrowing costs are recognized as an expense. The main change is the removal of the option of immediately recognizing as an expense borrowing costs that are directly attributable to the acquisition, construction or productivity of a qualifying asset. A qualifying asset is one that takes a substantial period of time to get ready for use or sale. An entity is therefore required to capitalize such borrowing costs as part of the cost of the asset. The standard does not require the capitalization of borrowing costs relating to assets measured at fair value, and inventories, even if they take a substantial period to time to get ready for use or sale. The standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009.

• PAS 36, *Impairment of Asset*, establishes frequency of impairment testing for certain intangibles and provides additional guidance on the measurement of an asset’s value in use.

• PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, ensures that appropriate recognition criteria and measurements bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the note to enable users to understand their nature timing and amount.

• PAS 38, *Intangible Assets* outlines the accounting requirements for intangible assets, which are non-monetary assets which are without physical substance and identifiable (either being separable or arising from contractual or other legal rights). Intangible assets meeting the relevant recognition criteria are initially measured at cost, subsequently measured at cost or using the revaluation model, and amortized on a systematic basis over their useful lives (unless the asset has an indefinite useful life, in which case it is not amortized). If recognition criteria of these intangible item does not meet both the definition of and the criteria for recognition as an intangible asset, PAS 38 requires the expenditure on this items to be recognized as an expenses when it is incurred.
• PAS 40, *Investment Property* applies to the accounting for property (land and/or buildings) held to earn rentals or for capital appreciation (or both). Investment properties are initially measured at cost and, with some exceptions. May be subsequently measured using a cost model or fair value model, with changes in the fair value under the fair value model being recognized in profit or loss.

• IFRS 30, *Heritage Assets*, applies to all heritage assets that are held and maintained by an entity principally for their contribution to knowledge and culture. Heritage assets can be historical, artistic, scientific, geophysical or environmental qualities. The IFRS sets out new disclosure requirements for the reporting of heritage assets, which apply whether or not they are reported in the balance sheet.

### 4. Summary of Significant Accounting Policies

#### Cash and Cash Equivalents

Cash in bank earns interest at the respective authorized government depository bank rates. Cash equivalents are short term, high liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of changes in values. Cash equivalents are for varying period of up to three months depending on the immediate cash requirements of the System, and earn interest at the respective investment rates. Due to the short term nature of the transaction, the fair value of cash and cash equivalents and short term investment approximates the amount at the time of initial recognition.

#### Receivables

Receivables are recognized and carried at original billed amount. Provision for doubtful accounts on water/sewer accounts receivable prior to privatization is maintained at a level considered adequate to provide for potential losses on receivables. The level of this provision or allowance is based on management’s evaluation of collection experience and other factors that may affect collectability.

#### Property, plant and equipment

Property, plant and equipment (PPE) were either Retained Assets which are those assets that are retained by MWSS at the start of the Concession, Allocated Assets which are those assets assigned to the two Concessionaires, the MWSI and MWCI, and the Common Purpose Facility (CPF) assets.

Property, plant and equipment (PPE) are stated at cost.

Depreciation of PPE commences once the properties become operational and available for use, and are calculated on a straight-line basis over the estimated useful lives of the property, plant and equipment. Minor repairs and maintenance costs are expensed when incurred, while major repairs and/or those repairs that will prolong the useful lives of the assets are capitalized.

When property and equipment are retired or disposed of, the cost and the related accumulated depreciation, amortization and accumulated provision for impairment losses, as the case may be, are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

The useful lives and the depreciation and amortization methods are reviewed periodically to ensure that they are consistent with the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An oil painting by H.R. Ocampo “Abstract in Red and Black” and the water color painting “Rooster” by Kiukok, both declared National Artists of the Philippines are listed in the PPE. These have yet to be registered in the Philippine Registry of Cultural Property of the National Museum per IRR of RA 10066 otherwise known as The Cultural Heritage Act of 2009.
Construction in-progress

Construction in-progress is stated at cost. While the construction is in progress, project costs are accrued based on the contractors’ accomplishment reports and billings. These represent costs incurred for technical services and capital works program contracted by the System to facilitate the implementation of the project. While the construction of the project is in progress, no provision for depreciation is recognized.

Construction in-progress is transferred to the related Property, Plant and Equipment account when the construction or installation and related activities necessary to prepare the property, plant and equipment for their intended use have been completed, and the property, plant and equipment are ready for service.

Long-term foreign loans

Long-term foreign loans are recorded in peso based on the exchange rate at the time of withdrawal and are revalued at the end of each reporting date.

Impairment of financial assets

An assessment is made at each reporting date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset’s recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset’s value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the year in which it arises.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. In 2004, an impairment loss was recognized by MWSS for the Umiray-Angat Transbasin due to damages caused by typhoons. Since said impairment was effected in the books only in 2005, it was charged directly to Retained Earnings of that year.

Leases

A lease where the lessor retains substantially all the risk and benefits of ownership of the asset is classified as an operating lease.

Revenue recognition

All Concession fees billed/colleced/received from the Concessionaires are treated as operating revenue.

Concession fees – Debt Service and Progress Billings are concession fees received from the Concessionaires that are intended for MWSS loan amortization and payments to contractors/suppliers, respectively. These are pass-on payment without any margin in favor of MWSS. Concession Fee – COB
is the annual Current Operating Budget being paid by the concessionaires to MWSS for administrative expenditures subject to annual Consumer Price Index adjustment.

**Foreign currency-denominated transactions**

Foreign currency-denominated transactions are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at reporting date. Foreign exchange gains and losses arising from foreign currency fluctuations are recognized in profit or loss for the period.

**Subsequent events**

All post year-end events up to the date the financial statements are authorized for issue that provide additional information about the System’s position at reporting date (adjusting events) are reflected in the financial statements. Any post year-end event that is material and not an adjusting event is disclosed in the notes to the financial statements.

**Borrowing costs**

Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of fixed assets (including costs incurred in connection with rehabilitation works) are capitalized as part of the cost of the asset. The capitalization commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all activities necessary in preparing the related assets for their intended use are complete.

**Judgments and use of estimates**

The preparation of the accompanying financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management’s evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

**Use of estimates**

Key assumptions concerning the future and other sources of estimation and uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Estimating allowance for doubtful accounts**

The System maintains allowances for doubtful accounts at a level considered adequate to provide for potential losses on receivables. The level of this allowance is based on management’s evaluation of collection experience and other factors that may affect collectability. The amount and timing of recorded expenses for any period would, therefore, differ depending on the judgments and estimates made for the year.

**Estimated useful lives of property, plant and equipment**

The System estimates the useful lives of its property, plant and equipment based on the period over which the assets are expected to be available for use. The System reviews annually the estimated useful lives of property, plant and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related
industry benchmark information. It is possible that future results of operation could be materially affected by changes in the System’s estimates brought about by changes in the factors mentioned.

**Contingencies**

Contingent Liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable. Contingent assets are not recognized unless virtually certain.

### 5. Cash and Cash Equivalents

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015 As Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on Hand</td>
<td>426,209</td>
<td>459,878</td>
</tr>
<tr>
<td>Cash in Bank – Local Currency, Current Account</td>
<td>62,887,832</td>
<td>330,093,514</td>
</tr>
<tr>
<td>Cash in Bank – Local Currency, Savings Account</td>
<td>5,435,151</td>
<td>8,088,008</td>
</tr>
<tr>
<td>Cash in Bank – Local Currency, Time Deposits</td>
<td>3,266,756,620</td>
<td>2,647,259,811</td>
</tr>
<tr>
<td>Cash in Bank – Foreign Currency, Savings Accounts</td>
<td>54,410</td>
<td>381,227</td>
</tr>
<tr>
<td>Cash in Bank – Foreign Currency, Time Deposits</td>
<td>17,985,237</td>
<td>16,690,582</td>
</tr>
</tbody>
</table>

3,353,545,459 | 3,002,973,020

a. Cash on Hand - This consist of the collections with the Cash Collecting Officers, amount of cash advances granted to designated Regular/Special Disbursing Officers for payment of authorized official expenditures subject to liquidation and cash granted to Petty Cash Custodians for payment of authorized petty and miscellaneous expenses which cannot be conveniently paid thru check.

b. Cash in Bank - Local Currency, Current Account - This consist of cash in local currency deposited in current account with the Land Bank of the Philippines (LBP) and Philippine National Bank (PNB) which earn interest at respective bank deposit rates.

c. Cash in Bank - Local Currency, Savings Account - This consist of cash in local currency deposited in savings account with the Development Bank of the Philippines (DBP), LBP and PNB which earn interest at respective bank deposit rates.

d. Cash in Bank – Local Currency, Time Deposits - This consist of placements in local currency time deposits with DBP and LBP.

e. Cash in Bank – Foreign Currency, Savings Account - This represent balances of cash in foreign currency, deposited in savings account with the Bureau of the Treasury and LBP.

f. Cash in Bank – Foreign Currency, Time Deposit - This consist of placements in foreign currency time deposit with LBP.

The decrease of Cash in Bank – Local Currency, Current Account was due to the investment made in special savings/time deposit placements to maximize income.
6. **Accounts Receivables, Net**

This account consists of:

<table>
<thead>
<tr>
<th>Account</th>
<th>2016</th>
<th>2015 As Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade/business receivables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables from customers-water, sewer, including raw water accounts</td>
<td>1,125,313,278</td>
<td>1,123,527,307</td>
</tr>
<tr>
<td>Receivables from concessionaires</td>
<td>424,699,591</td>
<td>502,509,315</td>
</tr>
<tr>
<td><strong>Total Trade/business receivables</strong></td>
<td><strong>1,550,012,869</strong></td>
<td><strong>1,626,036,622</strong></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(1,117,001,777)</td>
<td>(1,117,001,777)</td>
</tr>
<tr>
<td><strong>Non-trade receivables</strong></td>
<td><strong>433,011,092</strong></td>
<td><strong>509,034,845</strong></td>
</tr>
<tr>
<td>Intra-agency receivables</td>
<td>961,524</td>
<td>142,555,779</td>
</tr>
<tr>
<td>Inter-agency receivables</td>
<td>14,051,876</td>
<td>15,820,373</td>
</tr>
<tr>
<td>Due from officers and employees</td>
<td>33,916,125</td>
<td>36,625,670</td>
</tr>
<tr>
<td>Loans receivables</td>
<td>48,921,201</td>
<td>49,933,867</td>
</tr>
<tr>
<td>Interest receivables</td>
<td>5,548,708</td>
<td>3,943,304</td>
</tr>
<tr>
<td><strong>Total Non-trade receivables</strong></td>
<td><strong>103,399,434</strong></td>
<td><strong>248,878,993</strong></td>
</tr>
<tr>
<td>Unreconciled Balances</td>
<td>21,625,745</td>
<td>21,625,745</td>
</tr>
<tr>
<td><strong>Total Receivables</strong></td>
<td><strong>558,036,271</strong></td>
<td><strong>779,539,583</strong></td>
</tr>
</tbody>
</table>

The **Receivables from customers-water, sewer, including raw water** account represent the balance of accounts receivables prior to the privatization of MWSS in the amount of P1.117 billion, the collection of which is highly improbable. Thus, Management set-up the provision for bad debts account for the same amount. Meanwhile, Management is presently considering the process of writing-off the account in accordance with the required procedures, such as the congressional approval.

The **Receivables from concessionaires** represent concession fees for Current Operating Budget, Debt Service and Progress Billing that are outstanding as of balance sheet date.

**Intra-agency receivables** are receivables from the MWSS Regulatory Office consisting of electric bills and share in trainings and seminar expenses.

**Inter-agency receivables** represent collectibles from other government agencies such as the Department of Public Works and Highways (DPWH), Office of the Government Corporate Counsel (OGCC), Supreme Court, Manila International Airport Authority (MIAA), Local Water Utilities Administration (LWUA) and the City of Manila for office rental, electric and water bills. Some of these accounts are classified as dormant. The Management created a task force to work out on all inactive and dormant accounts to be written-off in the books of account.

7. **Other Receivables**

This account consists of the following:

<table>
<thead>
<tr>
<th>Account</th>
<th>2016</th>
<th>2015 As Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables from MWSI</td>
<td>5,445,333,994</td>
<td>5,470,092,547</td>
</tr>
<tr>
<td>Receivables from MWCI</td>
<td>163,865,611</td>
<td>190,913,381</td>
</tr>
<tr>
<td>Others</td>
<td>13,434,561</td>
<td>13,886,192</td>
</tr>
<tr>
<td><strong>Total Other Receivables</strong></td>
<td><strong>5,623,742,520</strong></td>
<td><strong>5,676,000,474</strong></td>
</tr>
</tbody>
</table>
Details of the *Receivables from MWSI and MWCI* are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MWSI</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of borrowings</td>
<td><strong>3,952,833,428</strong></td>
<td><strong>3,952,833,428</strong></td>
</tr>
<tr>
<td>Penalty on delayed remittance of Concession fees</td>
<td><strong>1,118,315,274</strong></td>
<td><strong>1,118,315,274</strong></td>
</tr>
<tr>
<td>Inventory held in trust</td>
<td><strong>158,479,798</strong></td>
<td><strong>158,479,798</strong></td>
</tr>
<tr>
<td>Penalty for non-payment of borrowing costs</td>
<td><strong>95,246,566</strong></td>
<td><strong>95,246,566</strong></td>
</tr>
<tr>
<td>Guarantee deposits</td>
<td><strong>94,996,518</strong></td>
<td><strong>94,996,518</strong></td>
</tr>
<tr>
<td>Mabuhay Vinyl</td>
<td><strong>4,993,546</strong></td>
<td><strong>4,993,546</strong></td>
</tr>
<tr>
<td>LMG Chemphil</td>
<td><strong>4,627,025</strong></td>
<td><strong>4,627,025</strong></td>
</tr>
<tr>
<td>Other receivables</td>
<td><strong>15,841,839</strong></td>
<td><strong>40,600,392</strong></td>
</tr>
<tr>
<td></td>
<td><strong>5,445,333,994</strong></td>
<td><strong>5,470,092,547</strong></td>
</tr>
<tr>
<td><strong>MWCI</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guarantee deposits</td>
<td><strong>65,583,130</strong></td>
<td><strong>65,583,130</strong></td>
</tr>
<tr>
<td>Inventory held in trust</td>
<td><strong>82,438,412</strong></td>
<td><strong>82,438,411</strong></td>
</tr>
<tr>
<td>LMG Chemphil</td>
<td><strong>7,730,290</strong></td>
<td><strong>7,730,290</strong></td>
</tr>
<tr>
<td>La Vista</td>
<td><strong>591,347</strong></td>
<td><strong>591,347</strong></td>
</tr>
<tr>
<td>Other receivables</td>
<td><strong>7,522,432</strong></td>
<td><strong>34,570,203</strong></td>
</tr>
<tr>
<td></td>
<td><strong>163,865,611</strong></td>
<td><strong>190,913,381</strong></td>
</tr>
</tbody>
</table>

*Cost of borrowings* include the principal, interest and finance charges such as bank conversions, documentary stamps, cable charges and penalties. MWSS is still pursuing the disputed claims on cost of borrowings from Maynilad Water Services, Inc. relative to the BNP Paribas loan. Should MWSS be able to collect additional cost of borrowings, the said amount will be used to pay the loan with LBP/DBP Bonds Facility.

Penalty on delayed remittance of Concession fee is disputed by MWSI. On December 19, 2007, the Rehabilitation Court issued an order, Special Proceeding No. Q-03-071 disallowing the penalty and the Order was confirmed on February 6, 2008. MWSS has requested the COA in a letter dated February 13, 2012 for the approval of the dropping off of the subject account from the books based on the order of the rehabilitation court.

*Inventory held in trust* represents costs of inventories turned-over to the concessionaires upon commencement of the Concession Agreement. Under Sec.16.12 of the Concession Agreement, upon the expiration of the Concession, the Concessionaires shall transfer to MWSS the inventory having a value (adjusted for CPI) at least equal to the Inventory made available to the Concessionaire on the Commencement Date.

*Guarantee deposits* are customer deposit prior to the privatization of MWSS. The amounts were withheld by the two concessionaires from the collection of accounts receivable from water and sewer services of MWSS on the onset of the privatization where the two concessionaires were authorized to collect. Management and the two concessionaires went into reconciliation to arrive at the amount of guarantee deposit to be refunded to MWSS, where MWCI refunded the amount of P6.6 million in 2011. The said amount is being contested by MWSS. The amount to be refunded by MWSI was also established, however to date, MWSI has not remitted the due amount from them.
Other Receivables includes charges to both Concessionaires for National Irrigation Administration’s (NIA) compensation billing for opportunity losses.

8. Prepayments

This account consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>As Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances to suppliers/contractors</td>
<td>778,929,154</td>
<td>284,369,896</td>
<td></td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>20,140,192</td>
<td>16,271,375</td>
<td></td>
</tr>
<tr>
<td>Unreconciled balances</td>
<td>96,513,124</td>
<td>96,513,124</td>
<td></td>
</tr>
<tr>
<td></td>
<td>895,582,470</td>
<td>397,154,395</td>
<td></td>
</tr>
</tbody>
</table>

Advances to suppliers/contractors include the balance of the 15 percent mobilization costs paid to the contractors/suppliers/consultants of civil works/goods/consultancy services, subject to periodic recoupment during the billing period and project implementation.

9. Property, Plant and Equipment, Net

The details of property, plant and equipment (PPE) are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Building, Plant Equipment and Transmission Lines</th>
<th>Office Furniture and Other Equipment</th>
<th>Transportation Equipment</th>
<th>Land &amp; land Improvements</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January 1, 2016</td>
<td>67,506,753,553</td>
<td>831,153,933</td>
<td>534,114,761</td>
<td>27,930,631,753</td>
<td>96,802,654,000</td>
</tr>
<tr>
<td>Additions</td>
<td>9,725,655</td>
<td>7,920,818</td>
<td>0</td>
<td>0</td>
<td>17,646,473</td>
</tr>
<tr>
<td>Reclass/Transfers</td>
<td>(73,430,208)</td>
<td>30,841,731</td>
<td>48,649,738</td>
<td>73,430,208</td>
<td>79,491,469</td>
</tr>
<tr>
<td>Adjustments</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Disposal</td>
<td>0</td>
<td>0</td>
<td>(2,732,711)</td>
<td>0</td>
<td>(2,732,711)</td>
</tr>
<tr>
<td></td>
<td>67,443,049,000</td>
<td>869,916,482</td>
<td>580,031,788</td>
<td>19,983,346,859</td>
<td>88,876,344,129</td>
</tr>
<tr>
<td>Add: Unreconciled balances 1/1/16</td>
<td>23,691,892</td>
<td>352,655,970</td>
<td>48,665,244</td>
<td>(10,319,400)</td>
<td>414,693,706</td>
</tr>
<tr>
<td>Reclass/Adjustments</td>
<td>0</td>
<td>(50,246,285)</td>
<td>(48,649,738)</td>
<td>0</td>
<td>(98,896,023)</td>
</tr>
<tr>
<td></td>
<td>23,691,892</td>
<td>302,409,685</td>
<td>15,506</td>
<td>(10,319,400)</td>
<td>315,797,683</td>
</tr>
<tr>
<td>December 31, 2016</td>
<td>67,466,740,892</td>
<td>1,172,326,167</td>
<td>580,047,294</td>
<td>19,973,027,459</td>
<td>89,192,141,812</td>
</tr>
</tbody>
</table>

Accum. Depreciation

<table>
<thead>
<tr>
<th></th>
<th>Building, Plant Equipment and Transmission Lines</th>
<th>Office Furniture and Other Equipment</th>
<th>Transportation Equipment</th>
<th>Land &amp; land Improvements</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1, 2016</td>
<td>41,400,531,215</td>
<td>716,675,026</td>
<td>416,025,225</td>
<td>0</td>
<td>42,533,231,466</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>1,098,640,516</td>
<td>4,160,878</td>
<td>16,609,676</td>
<td>0</td>
<td>1,119,411,070</td>
</tr>
<tr>
<td>Adjustments</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Reclassification/Transfers</td>
<td>(65,729,533)</td>
<td>27,847,450</td>
<td>43,784,764</td>
<td>0</td>
<td>5,902,681</td>
</tr>
<tr>
<td>Disposal</td>
<td>0</td>
<td>0</td>
<td>(2,459,440)</td>
<td>0</td>
<td>(2,459,440)</td>
</tr>
<tr>
<td></td>
<td>42,334,342,198</td>
<td>748,683,354</td>
<td>473,960,225</td>
<td>0</td>
<td>43,566,085,777</td>
</tr>
<tr>
<td>Add: Unreconciled balances 1/1/16</td>
<td>21,322,703</td>
<td>318,290,527</td>
<td>43,028,148</td>
<td>0</td>
<td>382,641,378</td>
</tr>
<tr>
<td>Reclass/Adjustments</td>
<td>0</td>
<td>(45,221,657)</td>
<td>(43,784,764)</td>
<td>0</td>
<td>(89,006,421)</td>
</tr>
<tr>
<td></td>
<td>21,322,703</td>
<td>273,068,870</td>
<td>(756,616)</td>
<td>0</td>
<td>293,634,957</td>
</tr>
<tr>
<td>December 31, 2016</td>
<td>42,454,764,901</td>
<td>1,021,752,224</td>
<td>473,203,609</td>
<td>0</td>
<td>43,949,720,734</td>
</tr>
</tbody>
</table>

Carrying Amount

<table>
<thead>
<tr>
<th></th>
<th>Building, Plant Equipment and Transmission Lines</th>
<th>Office Furniture and Other Equipment</th>
<th>Transportation Equipment</th>
<th>Land &amp; land Improvements</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2016</td>
<td>25,011,975,991</td>
<td>150,573,943</td>
<td>106,843,685</td>
<td>19,973,027,459</td>
<td>45,242,421,078</td>
</tr>
</tbody>
</table>

Cost

|                | January 1, 2015 | 67,504,541,051 | 806,046,300 | 516,976,772 | 19,226,484,649 | 88,054,048,772 |
10. Construction-in-Progress

The movements in this account follow:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning</td>
<td>160,218,665</td>
<td>157,496,267</td>
</tr>
<tr>
<td>Additions/New Project</td>
<td>63,477,629</td>
<td>3,681,544</td>
</tr>
<tr>
<td>Transfers/capitalization/Reclassification</td>
<td>(3,681,544)</td>
<td>(959,146)</td>
</tr>
<tr>
<td>Unreconciled balances</td>
<td>457,018,739</td>
<td>457,018,739</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>677,033,489</td>
<td>617,237,404</td>
</tr>
</tbody>
</table>

The increase in Construction-in-Progress was due to the implementation of Angat Water Transmission Improvement Project (AWTIP) that involves the design and construction of new tunnel (Tunnel No. 4) along MWSS’ existing tunnel No. 1 from Ipo to Bigte in Norzagaray, Bulacan. The decrease in reclassification was due to variation order of Sewerage Treatment Plant – 01 (STP-01) recorded as Construction in Progress in CY 2015 instead of Trust Liabilities.

11. Investments

This account consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Held to maturity/Special reserve fund</td>
<td>399,353,478</td>
<td>379,538,835</td>
</tr>
<tr>
<td><em>Stocks and bonds</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MERALCO stocks</td>
<td>2,151,518</td>
<td>2,151,518</td>
</tr>
<tr>
<td>PLDT investment plan</td>
<td>372,650</td>
<td>372,650</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>401,877,646</td>
<td>382,063,003</td>
</tr>
</tbody>
</table>
**Held to maturity/special reserve funds** are investments in Fixed Rate Treasury Bonds with varying yield to maturity/interest rates and coupon rates, which will mature from CYs 2016 to 2037 with settlement amount ranging from P100,000 to P29,430,649.50.

The **special reserve fund** with the Bureau of the Treasury, which is intended as guarantee for the financial obligations of MWSS during the concession period, was established in pursuance to Article 2.1 of the Memorandum of Agreement (MOA) between the Department of Finance (DOF) and MWSS.

### 12. Other Assets, Net

This account consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As Restated</td>
<td></td>
</tr>
<tr>
<td>Unserviceable assets</td>
<td>716,699,364</td>
<td>715,156,452</td>
</tr>
<tr>
<td>Research and development</td>
<td>6,212,055</td>
<td>6,212,055</td>
</tr>
<tr>
<td>MWSS Share in Angat Dam construction</td>
<td>6,161,066</td>
<td>14,283,669</td>
</tr>
<tr>
<td>Garnished accounts</td>
<td>10,613,512</td>
<td>10,613,512</td>
</tr>
<tr>
<td>Guarantee deposits</td>
<td>10,728,425</td>
<td>10,728,425</td>
</tr>
<tr>
<td>Dormant accounts</td>
<td>688,359,479</td>
<td>688,359,479</td>
</tr>
<tr>
<td>Unreconciled balances</td>
<td>(19,575,783)</td>
<td>(19,575,783)</td>
</tr>
<tr>
<td></td>
<td><strong>1,419,198,118</strong></td>
<td><strong>1,425,777,809</strong></td>
</tr>
</tbody>
</table>

**Unserviceable assets** are the costs of land, construction materials and supplies that can no longer be used in projects due to obsolescence or assets which are no longer operational. The decrease in MWSS Share in Angat Dam construction schedule was due to amortization for the year which will fully be amortized in August 2017.

### 13. Payable Accounts

This account consists of:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As Restated</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>39,992,334</td>
<td>50,546,098</td>
</tr>
<tr>
<td>Interest payable</td>
<td>183,185,438</td>
<td>111,479,076</td>
</tr>
<tr>
<td>Dividends Payable</td>
<td>212,089,381</td>
<td>362,089,381</td>
</tr>
<tr>
<td>Due to officers and employees</td>
<td>14,333,812</td>
<td>5,913,933</td>
</tr>
<tr>
<td>Unreconciled balances</td>
<td>533,802,867</td>
<td>533,802,867</td>
</tr>
<tr>
<td></td>
<td><strong>983,403,832</strong></td>
<td><strong>1,063,831,355</strong></td>
</tr>
</tbody>
</table>

**Accounts payable** includes accrued maintenance and other operating expenses and local counterpart of loans payable.

**Due to officers and employees** refers to accrued personal services to be paid the following year.

**Dividends Payable** pertain the balance of amount due for CY 2015 which is equivalent to 50% of annual net income in accordance with RA 7656.
14. Inter-agency payables

This account consists of payables to the:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureau of the Treasury</td>
<td>146,720,492</td>
<td>125,315,531</td>
</tr>
<tr>
<td>Bureau of Internal Revenue</td>
<td>1,882,111</td>
<td>4,237,128</td>
</tr>
<tr>
<td>GSIS</td>
<td>1,129,469</td>
<td>1,212,790</td>
</tr>
<tr>
<td>PAG-IBIG</td>
<td>92,285</td>
<td>85,044</td>
</tr>
<tr>
<td>Other GOCCs</td>
<td>74,446</td>
<td>77,254</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>149,898,803</strong></td>
<td><strong>130,927,747</strong></td>
</tr>
</tbody>
</table>

*Payable to the Bureau of the Treasury* pertains to the guarantee fee on existing loans.

*Other GOCCs* include Philhealth and National Home Mortgage and Financing Corporation.

15. Intra-agency Payable

This account represents the share of the MWSS-Regulatory Office in the concession fee received from the concessionaires for their current operating budget as provided in the CA and also includes charges for electricity and telephone expenses.

16. Other Liability Accounts

This account consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranty Deposits Payable</td>
<td>99,252</td>
<td>98,252</td>
</tr>
<tr>
<td>Performance/Bidders/Bail Bonds Payable</td>
<td>1,781,213</td>
<td>2,513,813</td>
</tr>
<tr>
<td>Trust Liabilities</td>
<td>101,310,718</td>
<td>595,203,423</td>
</tr>
<tr>
<td>Other Liability Accounts</td>
<td>97,642,045</td>
<td>108,056,830</td>
</tr>
<tr>
<td><strong>Unreconciled balances</strong></td>
<td><strong>328,112,668</strong></td>
<td><strong>328,113,668</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>528,945,896</strong></td>
<td><strong>1,033,985,986</strong></td>
</tr>
</tbody>
</table>

This account includes 10% retention from contractors’ claims, unreturned borrowed materials, cost of flushing, attorneys’ fees, guaranty deposits and depository liabilities. It also includes liabilities with existing law suits and money claims.

The decrease in trust liabilities is attributed to the disbursement of funds to finance the Angat Dam and Dyke Strengthening Project for the Provincial Government of Bulacan.
### 17. Long-term Liabilities/current portion

This account consists of domestic and foreign borrowing, as follows:

<table>
<thead>
<tr>
<th>Source</th>
<th>Maturity Date</th>
<th>Annual Interest Rate</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DBP/LBP</td>
<td>12/31/18</td>
<td>P 4.50%</td>
<td>401,785,714</td>
<td>723,214,286</td>
</tr>
<tr>
<td>SPIAL</td>
<td>05-15-26</td>
<td>$ 9.65%</td>
<td>185,565,825</td>
<td>188,124,748</td>
</tr>
<tr>
<td>ADB 1746-PHI</td>
<td>02-01-22</td>
<td>P floating</td>
<td>136,433,133</td>
<td>189,009,164</td>
</tr>
<tr>
<td>NHA</td>
<td>07-15-20</td>
<td>$ 8.50%</td>
<td>71,941,292</td>
<td>68,118,422</td>
</tr>
<tr>
<td>IBRD 1272/1282</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Foreign</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB 1379-PHI</td>
<td>07-15-20</td>
<td>$ floating</td>
<td>1,617,377,198</td>
<td>1,829,634,132</td>
</tr>
<tr>
<td>JBIC (OECF)</td>
<td>02-20-20</td>
<td>Y 2.70%</td>
<td>1,462,778,618</td>
<td>1,348,880,777</td>
</tr>
<tr>
<td>IBRD 4019-PH</td>
<td>07-01-16</td>
<td>$ floating</td>
<td></td>
<td>81,990,555</td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eximbank</td>
<td>01-21-30</td>
<td>$ libor rate</td>
<td>5,170,452,082</td>
<td>5,258,345,281</td>
</tr>
<tr>
<td>AWUAIP II</td>
<td>10-15-16</td>
<td>$ floating</td>
<td></td>
<td>48,095,927</td>
</tr>
<tr>
<td>ADB 1150-PHI</td>
<td>12-31-18</td>
<td>FF 3%-6.8%</td>
<td>5,623,081</td>
<td>18,604,537</td>
</tr>
<tr>
<td>French Protocol</td>
<td>09-15-17</td>
<td>$ Floating</td>
<td>9,323,165</td>
<td>17,227,724</td>
</tr>
<tr>
<td>IBRD 4227 PHI</td>
<td>03-15-41</td>
<td>$ libor rate</td>
<td>505,438,747</td>
<td></td>
</tr>
<tr>
<td>ADB 3377-PHI</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Portion</strong></td>
<td></td>
<td></td>
<td>8,770,992,891</td>
<td>8,602,778,933</td>
</tr>
<tr>
<td><strong>Non-Current Portion</strong></td>
<td></td>
<td></td>
<td>9,665,514,254</td>
<td>9,870,040,952</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>894,521,363</td>
<td>1,267,262,019</td>
</tr>
</tbody>
</table>

On February 10, 2011, the MWSS Board of Trustees unanimously passed Board Resolution no. 2011-017 approving the **P2.250 Billion floating rate Bond Issuance under the DBP-LBP Club deal Arrangement**. The bond issuance was guaranteed by the National Government. The proceeds were used to partly finance the MWSS’ maturing 7-year USD 150M 9.25% Fixed rate Bond with the BNP Paribas which matured last March 14, 2011. The bond was drawn in full on March 30, 2011 and payable in seven (7) years with pre-termination option. Interest rate was based on the higher of the BSP Reverse Repurchase (RRP) Facility or BSP Overnight Borrowing Rate.
The Special Project Implementation Assistance Loan (SPIAL) is a portion of the National Government’s multi-currency loans from the ADB under Loan Nos. 779 & 780. This was lent to MWSS to partly finance the following projects: Manila Water Supply Rehabilitation Project I (MWSRP I), Manila Water Supply Project II (MWSP II), and Metro Manila Sewerage Project (MMSP).

**ADB Loan No. 1746 PHI** is a sub-loan agreement entered into by and between the Department of Finance and the MWSS on October 13, 2003 for the implementation of the Pasig River Environmental Management and Rehabilitation Sector, a sanitation component of the loan.

**NHA Loan** was transferred by NHA to MWSS before the privatization that financed the transfer of water and sewer systems of Tondo Foreshore, Dagat-Dagatan and Kapitbahayan. The validity of the account is still subject to confirmation and subsequent preparation of MOA between MWSS, NHA and the two concessionaires.

**International Bank for Reconstruction and Development (IBRD) Loan No. 1272/1282- Manila Urban Development Project** – are likewise a national government loan lent to MWSS on October 1, 1976. Per subsidiary loan agreement dated October 1, 1976, MWSS shall repay the principal of the subsidiary loan that started on November 15, 1981.

**ADB Loan No. 1379 PHI** was obtained on November 27, 1995. The primary objectives of the project were to divert an average annual flow of about 15.7 cubic meters per second from the Umiray river basin to the Angat reservoir and to augment the treated water supply capacity of MWSS by about nine cubic meters per second by 1999. The secondary objective of the project was to reduce Non Revenue Water (NRW) by providing support for leak detection and repair activities. It is a twenty (20) year loan with a grace period of five (5) years which will mature on July 15, 2020.

**JBIC Loan PH 110** – contracted by Japan and the national government of the Republic of the Philippines in 1990 intended for Angat Water Supply Optimization Project. The proceeds of the loan were treated by MWSS as government equity.

**IBRD Loan No. 4019 PH - Manila Second Sewerage Project** - was obtained on June 19, 1996. The objectives of the project were to assist the Borrower to a) reduce the pollution of Metro Manila waterways and Manila Bay; b) reduce the health hazards associated with human exposure to sewerage in Metro Manila; and c) establish a gradual low-cost improvement of sewerage services in Metro Manila by expanding the Borrower’s septage management program.

**China Eximbank - Angat Water Utilization and Aqueduct Improvement Project Phase II (AWUAIP-II)** is being financed through a loan from the Export-Import Bank of China on May 7, 2010 in the amount of US$116,602,000. The Angat Water Utilization and Aqueduct Improvement Project Phase 2 is an offshoot of the Angat Water Utilization and Aqueduct Improvement Project (AWUAIP). To be implemented by the MWSS, the AWUAIP is targeted to maintain and optimize the water conveyance from Angat Dam to the Water Treatment Plants via the Ipo Dam-Bicti-La Mesa Portal system. The project involves the rehabilitation of AQ-5, which supplies half of the raw water for Metro Manila, as well as the construction of AQ-6 in order to recover around 394 million liters of raw water lost to leakages. AWUAIP Phase 2 on the other hand involves the construction of the remaining 9.9 km section of AQ-6, and the rehabilitation of AQ-5. The AQ-6 extension aims to completely recover the lost water due to leakages in AQ-5. Repayment period is fifteen (15) years on a semi-annual basis starting January 21, 2015 and will mature on January 21, 2030.

**ADB Loan No. 1150 PHI – Manila South Water Distribution Project** – was obtained on January 23, 1992. The primary objective of the project was to improve the water supply services of MWSS in the project area. The secondary objective was to reduce the use of ground water, to prevent saline intrusion and land subsidence, as the main source of water for the remaining population not served by MWSS in the project area.
The French Protocol is a French Treasury Credit Facility from the French Republic intended to finance the implementation of the Rizal Province Water Supply Improvement Project (RPWSIP) payable within a period of ten (10) years that started December 2002.

**IBRD 4227 PHI** was part of the Water Districts Development Project funded by a loan from the World Bank-IBRD. MWSS entered into a subsidiary loan agreement with the Republic of the Philippines through the Department of Finance for a $2.3 Million from said IBRD loan. Repayment period is 15 years on a semi-annual basis starting March 15, 2003 and ending on September 15, 2017 per Schedule 3 of the Loan Agreement between the Republic of the Philippines and the International Bank for Reconstruction and Development dated May 15, 1999.

**ADB Loan 3377-PHI** is a negotiated loan agreement between MWSS and Asian Development Bank for the Angat Water Transmission Improvement Project in the amount of US$123.30 million on 27 May 2016. This loan is guaranteed by the National Government and payable semi-annually in 25 years inclusive of 6.5 years grace period. MWSS shall pay 0.25% Guarantee Fee per annum on the outstanding obligation pursuant to DC 1-2016 to the National Government. The expected closing date is 30 June 2022.

18. **Deferred Credits**

This account consists of:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015 As Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred credits to income - COB</td>
<td>505,114,350</td>
<td>516,153,382</td>
</tr>
<tr>
<td>Deferred credits to Income – Penalty/Interest. on delayed payment of Concession Fee &amp; borrowing costs</td>
<td>1,267,268,877</td>
<td>1,213,561,850</td>
</tr>
<tr>
<td>Others</td>
<td>45,963,609</td>
<td>97,215,051</td>
</tr>
<tr>
<td>Unreconciled balances</td>
<td>22,632,720</td>
<td>22,632,720</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,840,979,556</td>
<td>1,849,563,003</td>
</tr>
</tbody>
</table>

*Deferred credits to income – COB* account represents annual income concession fee – corporate operating budget received in advance from concessionaires pursuant to the concession agreement. Said account is amortized fully within the year to the appropriate income account.

*Deferred credits to Income – Penalty/Interest on delayed payment of Concession Fee* is the penalty previously charged to MWSI computed based on 364 T-bills rate. The amount was disallowed by the Rehabilitation Court in Court Order approving the Prepayment and Settlement Agreement (PSA) dated 19 December 2007 and Court Order confirming the termination of the corporate rehabilitation proceedings on account of successful implementations of the 2005 Revised Rehab Plan dated 6 February 2008. The *Other Deferred Credits* included the following:

<table>
<thead>
<tr>
<th>Disposal/Public Auction</th>
<th>Sale from disposal of Assets which needs to be reconciled with the various subsidiary accounts for identification of assets, its depreciation and gain or loss on sale of assets.</th>
<th>P 31,124,028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Lot Housing</td>
<td>Collection from employees for Cost of Lot payment (MWSS Housing).</td>
<td>13,019,097</td>
</tr>
<tr>
<td>Miscellaneous – Others</td>
<td>Pasig River Environmental Mgt. &amp; Rehab Sector Dev. Program (PREMSDP)</td>
<td>1,752,679</td>
</tr>
<tr>
<td>Miscellaneous – Cash Bond and Others</td>
<td>Cash deposits intended to cover up expenses in cases of breakage, damage to property and cleanliness of renting MWSS facilities which are refundable.</td>
<td>42,100</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Amount withheld for liquidated damages</td>
<td>Amount withheld from contractors under dispute</td>
<td>25,705</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>P 45,963,609</strong></td>
<td></td>
</tr>
</tbody>
</table>

19. Capital Stock

MWSS has an authorized capital stock of P8 billion corresponding to 80 million shares at P100 par value, of which P6,095,486,784 were issued and outstanding equivalent to 60,954,867.84 shares.

20. Donated capital

This account represents the costs of waterworks facilities turned-over by private subdivisions by way of a Deed of Donation. It also includes the grant from the Japan International Cooperation Agency (JICA) for the rehabilitation of Balara Water Treatment Plant.

21. Appraisal Capital Stock

The Appraisal Capital Stock is used to record changes in the carrying amount of items of PPE as a result of revaluation. The Revaluation Surplus account has an ending balance of P28.428 billion as shown below:

<table>
<thead>
<tr>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>12,205,095,285</td>
</tr>
<tr>
<td>Structures and Improvements</td>
<td>292,485,820</td>
</tr>
<tr>
<td>Collecting and Impounding Reservoirs</td>
<td>1,111,404,830</td>
</tr>
<tr>
<td>Supply Mains</td>
<td>3,097,555,968</td>
</tr>
<tr>
<td>Distribution Reservoirs and Booster Station</td>
<td>2,432,331,004</td>
</tr>
<tr>
<td>Building and Improvements</td>
<td>485,838,406</td>
</tr>
<tr>
<td>Wells and Facilities</td>
<td>76,762,346</td>
</tr>
<tr>
<td>Water Treatment Equipment</td>
<td>103,483,461</td>
</tr>
<tr>
<td>Sewer Treatment Equipment</td>
<td>4,192,576</td>
</tr>
<tr>
<td>Water Treatment Plant</td>
<td>126,236,850</td>
</tr>
<tr>
<td>Transmission and Distribution Mains</td>
<td>7,730,461,901</td>
</tr>
<tr>
<td>Water Meters</td>
<td>98,315,762</td>
</tr>
<tr>
<td>Transmission and Discharge Mains</td>
<td>482,090,989</td>
</tr>
<tr>
<td>Public Faucets/Sanitary Facilities</td>
<td>15,954,953</td>
</tr>
<tr>
<td>Sewer Treatment Plant and Pumping Stations</td>
<td>82,942,888</td>
</tr>
<tr>
<td>Hydrants</td>
<td>9,799,181</td>
</tr>
<tr>
<td>Manholes and Accessories</td>
<td>13,968,231</td>
</tr>
<tr>
<td>House Water Connection</td>
<td>8,177,985</td>
</tr>
<tr>
<td>House Sewer Connection</td>
<td>38,709,103</td>
</tr>
<tr>
<td>Electrical Installation and Lighting System</td>
<td>12,096,251</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>28,427,903,790</strong></td>
</tr>
</tbody>
</table>
The decrease amounting to P7.955 billion represents adjustments and appraisal made in the Land account as discussed in Note 9.

22. Revenue

This account consists of:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As Restated</td>
<td></td>
</tr>
<tr>
<td>Concession Income</td>
<td>993,105,901</td>
<td>1,194,999,130</td>
</tr>
<tr>
<td>Concession Fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Service</td>
<td>1,554,341,919</td>
<td>1,114,696,519</td>
</tr>
<tr>
<td>Progress Billing</td>
<td>53,035,195</td>
<td>0</td>
</tr>
<tr>
<td>Business Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw Water</td>
<td>74,428,065</td>
<td>54,023,666</td>
</tr>
<tr>
<td>Rental of Leased Properties</td>
<td>95,679,346</td>
<td>257,695,887</td>
</tr>
<tr>
<td>Interest on Investments and Deposits</td>
<td>67,432,385</td>
<td>50,047,957</td>
</tr>
<tr>
<td>Miscellaneous Income</td>
<td>215,391</td>
<td>3,039,977</td>
</tr>
<tr>
<td>Other Fines and Penalties</td>
<td>3,230</td>
<td>8,956</td>
</tr>
<tr>
<td>Gains/Loss on Foreign Exchange</td>
<td>(510,677,154)</td>
<td>(504,030,291)</td>
</tr>
<tr>
<td>Gain/Loss on Disposed Assets</td>
<td>22,365</td>
<td>247,784</td>
</tr>
<tr>
<td></td>
<td>2,327,586,643</td>
<td>2,170,729,585</td>
</tr>
</tbody>
</table>

*Concession Fees – Debt Service and Progress billings* are concession fees received from the Concessionaires that are intended for MWSS loan amortization and payments to contractors/suppliers, respectively. These are pass-on payment without any margin in favor of MWSS.

*Concession Income* is the annual Current Operating Budget being paid by the concessionaires to MWSS for administrative expenditures subject to annual Consumer Price Index adjustment.

*Business Income* are income resulting from operation, including interest earned from deposits.

*Raw Water* business income are from sale of raw water on service areas not covered by the service areas of the MWSI.

*Gain or Loss on Foreign Exchange* are paper gain/loss as a result of appreciation or devaluation of pesos on loan payments.

*Gain/Loss on Disposed Assets* are the difference between book value and income from sale from disposal.

23. Personal services

This account is comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages – regular</td>
<td>64,146,472</td>
<td>68,399,943</td>
</tr>
<tr>
<td>Productivity incentive allowance</td>
<td>8,306,087</td>
<td>13,430,789</td>
</tr>
<tr>
<td>Life and retirement insurance contributions</td>
<td>7,700,027</td>
<td>8,261,880</td>
</tr>
<tr>
<td>Other personnel benefits</td>
<td>6,548,714</td>
<td>9,878,771</td>
</tr>
</tbody>
</table>
Other bonuses and allowances 5,446,193 1,871,292  
Cash gift/13\textsuperscript{th} month pay 4,228,429 6,511,177  
PERA 3,814,200 4,010,407  
Longevity Pay 3,101,659 0  
Subsistence, laundry & quarter allowance 2,846,454 74,243  
Representation allowance 2,730,721 2,815,043  
Transportation allowance 2,590,878 2,682,307  
Terminal leave benefits 2,157,946 968,844  
Honoraria 2,052,000 3,495,512  
Year End bonus 1,970,707 0  
Clothing allowance 820,000 860,000  
PHILHEALTH contributions 654,125 693,713  
Hazard pay 214,011 436,943  
ECC contributions 191,200 201,450  
PAG-IBIG contributions 191,200 201,100  
Overtime and night pay 21,129 0  

119,732,152 124,793,414

24. Maintenance and Other Operating Expenses

This account consists of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As Restated</td>
<td></td>
</tr>
<tr>
<td>Taxes, duties and licenses</td>
<td>28,339,649</td>
<td>85,113,492</td>
</tr>
<tr>
<td>Security services</td>
<td>27,010,399</td>
<td>25,411,872</td>
</tr>
<tr>
<td>Auditing services</td>
<td>6,149,103</td>
<td>11,163,866</td>
</tr>
<tr>
<td>Other professional services</td>
<td>4,500,543</td>
<td>3,846,876</td>
</tr>
<tr>
<td>Janitorial services</td>
<td>4,288,528</td>
<td>4,068,812</td>
</tr>
<tr>
<td>Other maintenance and operating expenses</td>
<td>3,990,797</td>
<td>10,079,426</td>
</tr>
<tr>
<td>Electricity expenses</td>
<td>3,934,245</td>
<td>3,663,992</td>
</tr>
<tr>
<td>Training expenses</td>
<td>3,133,933</td>
<td>2,538,826</td>
</tr>
<tr>
<td>Insurance expense</td>
<td>2,763,099</td>
<td>2,759,350</td>
</tr>
<tr>
<td>Representation expenses</td>
<td>2,423,221</td>
<td>1,533,083</td>
</tr>
<tr>
<td>Communication expense</td>
<td>2,303,790</td>
<td>2,238,400</td>
</tr>
<tr>
<td>Office supplies expenses</td>
<td>1,726,770</td>
<td>2,280,825</td>
</tr>
<tr>
<td>Gasoline, oil and lubricants</td>
<td>1,518,285</td>
<td>1,546,375</td>
</tr>
<tr>
<td>Subscription expenses</td>
<td>1,445,555</td>
<td>140,966</td>
</tr>
<tr>
<td>Extraordinary and miscellaneous expenses</td>
<td>1,438,330</td>
<td>1,890,723</td>
</tr>
<tr>
<td>Consultancy expenses</td>
<td>1,231,429</td>
<td>11,692,938</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>1,192,183</td>
<td>730,219</td>
</tr>
<tr>
<td>Other supplies expenses</td>
<td>954,576</td>
<td>970,454</td>
</tr>
<tr>
<td>Advertising expenses</td>
<td>738,203</td>
<td>2,895,150</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>735,570</td>
<td>514,079</td>
</tr>
<tr>
<td>Travelling expenses</td>
<td>586,124</td>
<td>274,027</td>
</tr>
<tr>
<td>Printing and binding expenses</td>
<td>485,632</td>
<td>621,741</td>
</tr>
</tbody>
</table>
Drugs and medicines expenses 405,225 633,956
Fidelity bond premiums 54,802 53,491
Postage and deliveries 52,343 46,515
Membership dues and contributions to 44,136 46,006
Water expenses 25,424 107,015
Legal Services 0 1,919,836
Environment/Sanitary Services 0 12,000

101,471,894 178,794,311

25. Income Tax Expense

Section 18 of the MWSS Charter (R.A. 6234) provides that “All articles imported by the Metropolitan Waterworks and Sewerage System xxx, shall be exempt from the imposition of import duties and other taxes.

BIR Ruling No. DA-088-2001 dated May 16, 2001 ruled that the concession fees paid by the Concessionaires to MWSS, if at all they are in the nature of income, shall be excluded from the gross income subject to tax. Categorically, MWSS is taxable with respect to its other income other than concession fees received from the concessionaires.

The account Taxes, Duties and Licenses is used to recognize the amount of taxes, duties and licenses and other fees due to regulatory agencies except income tax. This also includes taxes on interest income on savings deposits, time deposits and government securities of the bond sinking fund/other funds. (COA Circular No. 2001-008 and the New Government Accounting Manual)

26. Financial Expenses

This account consists of:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015 As Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expenses</td>
<td>397,284,771</td>
<td>314,721,177</td>
</tr>
<tr>
<td>Other financial charges</td>
<td>96,140,933</td>
<td>52,846,442</td>
</tr>
<tr>
<td>Bank charges</td>
<td>9,359,186</td>
<td>132,662</td>
</tr>
<tr>
<td></td>
<td><strong>502,784,890</strong></td>
<td><strong>367,700,281</strong></td>
</tr>
</tbody>
</table>

27. Contingent Liabilities

MWSS is contingently liable for lawsuits or claims filed by third parties which are either pending in the courts or under negotiations. These cases involve, among others, lease of properties, collection of sum of money, water use conflict issues, payments of claims, protest on real property taxes and tax consequences resulting from revaluation/appraisal of its Property, Plant and Equipment.

a. BIR Tax Assessment

MWSS received Assessment/Demand Letter requiring the agency to settle tax deficiency for CY 2010
amounting to P30,772,011.57. MWSS is currently exhausting all available legal remedies with the BIR on the subject tax assessments.

Also, on 18 November 2016, the BIR sent to the MWSS a Formal Letter of Demand on Final Assessment Notice on Deficiency Taxes for CY 2013 amounting to P329.210 million, inclusive of interest charges of P117.337 million. An Appeal was filed with the Court of Tax Appeal on May 25, 2016.

b. The System has pending court litigations concerning project contracts and land disputes totaling P29.71 million prior to its privatization in 1997. The MWSS has also disputed the real estate taxes charged by the local government of Quezon City in the amount of P264 million. In 2010, the Quezon City government auctioned some of the properties located in the area. To prevent the inclusion of MWSS property in the auction held in December 2010, the System deposited P30 million. The legal issues on the matter are elevated before the Supreme Court and subsequently a temporary restraining order (TRO) was issued on January 21, 2011 enjoining Quezon City government from proceeding with the levy of the subject properties until further orders from the court.

c. Other significant legal cases are as follows:

- MWSS vs. Maynilad Water Services Civil Case R-QZN-15-06702-CV
- Neri Colmenares and Carlos Zarate of Bayan Muna Partylist vs. Cesar Purisima, MWSS, et.al GR. 219352
- Lina Francia F. Badeo vs. MWSS for reinstatement with back wages and others
- Lease of MWSS property along Katipunan Ave by SM Prime Holdings
- Water for all Refund Movement vs. MWSS GR. 207444/208207/210147
- Gabriel Advincula vs. MWSS; GR. 179217, Re: Severance Pay
- Alexander Lopez, et.al vs. MWSS, GR 198693, Re: Contract Collectors Claim
- CSC vs. MWSS; indirect Contempt on Alexander Lopez, et.al, Separation Pay and Terminal Leave of Contract Collectors
- Various cases regarding Unlawful Detainer on Land Properties of MWSS

d. MWSS Appraisal Capital Stock (Revaluation Surplus) will result in tax consequences once the actual amount of revaluation surplus is determined through the conduct of appraisal of its Property, Plant and Equipment.

28. Report on the Supplementary Information Required Under Revenue Regulation No. 15-2010

In compliance with the above regulation, MWSS’ taxes and withholding taxes paid and accrued during the year are categorized as follows:

1. Income Tax
   For the Year 2016 MWSS incurred P10,798,509 corporate income tax payable.

2. VAT Output Tax
   MWSS is a VAT registered company with VAT Output Tax declaration of Php11,941,161.54 for the year based on the amount reflected in the Income/Receivables Account of Php99,509,679.69

3. VAT Input Tax
   The amount of VAT Input taxes claims are broken down as follows:
4. Other Taxes and Licenses

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>P 15,221,512</td>
</tr>
<tr>
<td>Other Taxes and Licenses</td>
<td>P 15,221,512</td>
</tr>
<tr>
<td>BIR Registration Fee</td>
<td>500</td>
</tr>
<tr>
<td>BIR Assessment Fee - 2010</td>
<td>13,117,637</td>
</tr>
<tr>
<td>Total</td>
<td>28,339,649</td>
</tr>
</tbody>
</table>

5. The amount of withholding taxes categorized into:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Tax on Compensation and Benefits</td>
<td>P 11,619,815</td>
</tr>
<tr>
<td>ii. Creditable Withholding Tax/es</td>
<td>17,607,039</td>
</tr>
<tr>
<td>iii. Final Withholding Tax/es</td>
<td>881,415</td>
</tr>
<tr>
<td>iv. Expanded Withholding Tax/es</td>
<td>7,120,684</td>
</tr>
</tbody>
</table>

29. Unreconciled Asset and Liability Account Balances

The summary of the unreconciled balances in the Asset and Liability accounts is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset Accounts</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>21,625,745</td>
<td>21,625,745</td>
</tr>
<tr>
<td>Other Receivables</td>
<td>1,108,354</td>
<td>1,108,354</td>
</tr>
<tr>
<td>Prepayments</td>
<td>96,513,124</td>
<td>96,513,124</td>
</tr>
<tr>
<td>Property, Plant and Equipment</td>
<td>22,162,726</td>
<td>32,052,328</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>457,018,739</td>
<td>457,018,739</td>
</tr>
<tr>
<td>Other Assets</td>
<td>(19,575,783)</td>
<td>(19,575,783)</td>
</tr>
<tr>
<td>Total Unreconciled Assets</td>
<td>578,852,905</td>
<td>588,742,507</td>
</tr>
<tr>
<td><strong>Liability Accounts</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payable Accounts</td>
<td>533,802,867</td>
<td>533,802,867</td>
</tr>
<tr>
<td>Other Liability Account</td>
<td>328,112,668</td>
<td>328,113,668</td>
</tr>
</tbody>
</table>

The summary of the unreconciled balances in the Asset and Liability accounts is as follows:
<table>
<thead>
<tr>
<th>Deferred Credits</th>
<th>22,632,720</th>
<th>22,632,720</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Unreconciled Liabilities</td>
<td>884,548,255</td>
<td>884,549,255</td>
</tr>
<tr>
<td>Net Unreconciled Balances</td>
<td>305,695,350</td>
<td>295,806,748</td>
</tr>
</tbody>
</table>

30. **Restatement of Retained Earnings**

The Retained Earnings as of January 1, 2016 has been restated as follows:

Balance, January 1, 2016 (Unrestated) 1,278,854,598

Adjustments:
- Reclassification of Land Revaluation Cost 8,020,715,102
- Understatement of Concession Fee - DS 84,338,552
- Prior Years/Adjustments/Allocated Errors 32,202,758
- Adjustment of Depreciation (57,620)
- Payment of Money Claims – AA, COLA, RA 1616 (722,223)
- Adjustment of PPE (1,854,801)
- Income/Expense Adjustments (31,677,850)
- Adjustment of Guarantee Fee payable to NG (37,966,918)
- Borrowing Cost that should not be Capitalized (248,784,911)

Total 7,816,192,089

Retained Earnings, January 1, 2016 (As Restated) 9,095,046,687

31. **Statement of Comparison of Budget and Actual Amounts**

The budget was on an accrual basis, covering the period from January 01, 2016 to December 31, 2016. The MWSS - Corporate and Regulatory Offices have a separate budget approval from the Department of Budget and Management.

The excess in the budgetary amounts as against the actual expenditures on the Personnel Services was due to the unfilled vacant plantilla positions and non-implementation of the increase in projected salaries based on SSL-4 Tranche 1 which is subject to the reorganization of the System. While variance on the Maintenance and Other Operating Expenses arises from the non-implementation of the Early Retirement and Incentive Package (ERIP) and the delays in the procurement was attributed to the absence of the approving Board of Trustees brought about by the change in the Administration.
Bulacan Bulk Water Supply Project
Angat Water Transmission Improvement Project

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