



Country Water Action: Philippines Rationalizing Tariffs for Private Water Utilities under the National Water Resources Board (September 2005)

The Philippines' National Water Resources Board—the country's [apex body](#)—underwent organizational restructuring and reforms. It now boasts of a new tariff setting methodology to improve the economic regulation of private water utilities and provide reasonably priced water for consumers.

- [Fairly Priced Water For All](#)
- [A Brief Look at the National Water Resources Board](#)
- [Recalculating Tariffs](#)
- [NWRB: Restructured and Reloaded](#)
- [Related Links](#)
- [Contacts](#)

FAIRLY PRICED WATER FOR ALL

The prospect for reasonably priced water in the Philippines has just significantly improved.

The Philippines' National Water Resources Board (NWRB) approved the proposed 5-year Return on Investment (ROI) method as its new tariff setting methodology to improve the economic regulation of private water utilities under its jurisdiction. An average ROI, computed by dividing the total revenue requirements for 5-years with the 5-year total consumption, is an added feature that will lessen the impact of price increases that could affect consumers.

This new methodology was one of the outcomes of the [Pilot and Demonstration Activity \(PDA\) on Rationalizing Tariffs for Private Water Services](#) under the NWRB in 2004. The PDA specifically aimed to:

- Improve NWRB rate setting methodology and regulatory supervision of its clients.
- Introduce/Identify reforms to strengthen NWRB economic regulation.
- Encourage stakeholder participation in problem analysis and formulation of recommendations to ensure its acceptability.

[▲Top](#)

A BRIEF LOOK AT THE NATIONAL WATER RESOURCES BOARD

Among several regulatory institutions in the Philippines, NWRB is the only national regulatory body for water resources and economic regulation. Its functions and duties include:

- supervision and control of all waterworks utilities, and their franchises and other properties
- regulation and setting of water rates to be charged by waterworks operators

NWRB grants Certificates of Public Convenience (CPCs) to operators of waterworks systems, which permit them to operate and maintain waterworks supply services and impose penalties for violations of rules and regulations relative to it. It also regulates and fixes water rates to be charged by waterworks



operators except those falling under the jurisdiction of other agencies. It can impose and collect supervision and regulation fees from its clients.

The PDA's Institutional Assessment points out some of the NWRB's limitations that both affect and result from its extensive mandate:

- An estimated 1800 potential clients have not yet been maximized. NWRB has issued only 327 CPCs in 2004. Tariff approval system is not efficient.
- NWRB's annual accomplishment from year 2000-2003 shows declines in approved permits and resolved water use conflicts. Verification of operation of utilities without CPCs, and monitoring of water utilities operations and testing of water meters also decreased.
- NWRB personnel are few and inexperienced in utility operations. They lack important field equipment.
- NWRB also lacks focus and continuity in leadership and an inadequate operational budget set by Congress.

[Top](#)

RECALCULATING TARIFFS

Among the PDA's recommended reforms is the recomputation of NWRB's tariff setting methodology. The new Return on Investment (ROI) method aims to improve the economic regulation of private water utilities under NWRB's jurisdiction.

NWRB's current ROI methodology is based on a "one year test period" and raises many issues among private water utilities and consumers that are not addressed, such as:

- Tariffs are not related to service levels
- Lack of business/asset management plans
- Use of assumptions which distort calculations
- No conscious effort to discourage excessive consumption
- No differential pricing for different connection size/meters
- Rate structuring for the different consumption blocks not rationalized
- Long tariff review process

Government policies on cost recovery, water conservation, level of efficiency and affordability have to be taken into consideration in advocating the changes in tariff calculation methods. Tariff goals are also redefined to focus on good governance and financial sustainability. Organizational restructuring and capability enhancement for the NWRB are proposed.

[Top](#)

NWRB: RESTRUCTURED AND RELOADED

In addition to the new tariff setting methodology, the PDA also showed the need for the regulatory body's restructuring and capability enhancement. As a result, NWRB will work to undertake the following:

Organizational. To improve effectiveness and efficiency on the use of its limited resources, NWRB will:

- Create three Area Operations (Luzon, Visayas and Mindanao) to decentralize activities to these areas
- Improve staffing complement to 170 as opposed to the existing 126
- Establish a Financial Regulation Division to handle tariff reviews

Regarding the monitoring of private water utilities, NWRB will undertake:

- Submission of annual reports by the CPC grantees with revised formats will be compulsory
- Review of the 5-year results of operations for possible upward adjustment will be reviewed
- Use of Key Performance Indicators (KPIs) as benchmarks

Financial. While major changes in tariff methodology are introduced, NWRB still needs to find ways to increase its operations budget. One way is to increase the number of its clients. Consultations with various stakeholders — such as CPC grantees, cooperatives and other national bodies — enabled NWRB to increase its client base.

Legal. Some of the legal issues related to tariff methodology will also be addressed:

- Clarification of which types of organizations providing water services will fall under the NWRB's jurisdiction
- Enforcement of NWRB's rules, orders and decisions for the compliance of water utilities
- Implementation of penalties for violations of CPCs
- Use of 12% rate of return on investment base over the 5-year validity period as legally mandated
- Determining the conditions for granting CPCs
- Renaming the NWRB into the National Water Regulatory Board to reflect its true role and function as both an economic and resource regulator

