



Water Regulatory Authority (WRA) of Albania

Tariff Setting Guideline

September 2011

Published by

Water Regulatory Authority of Albania

© Water Regulatory Authority of Albania

Supported by

Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

giz

TABLE OF CONTENTS

INTRODUCTION 3

CHAPTER 1: LEGAL AUTHORITY, APPLICATION OF THE REGULATION AND DEFINITIONS..... 5

Article 1: Purpose and Legal Authority 5

Article 2: Application of the Regulation 5

Article 3: Definitions 5

CHAPTER 2: TARIFF SYSTEM AND PRICING OF ADDITIONAL WATER AND SEWERAGE SERVICES..... 8

Article 4: Tariff Policy Objectives 8

Article 5: Fundamentals of Tariff Design..... 8

Article 6: Calculation of Costs 9

Article 7: Tariff Structure and Model to be approved by WRA..... 10

Article 8: Increasing Block Tariffs for Domestic/Household Customers with Meters..... 11

Article 9: Wholesale Tariff 12

Article 10: Sewerage Service Tariffs..... 12

Article 11: Other Fees 12

CHAPTER 3: TARIFF ADJUSTMENT PROPOSAL AND PROCESS OF TARIFF ANALYSIS 14

Article 12: General Issues..... 14

Article 13: Regulatory Fee 15

Article 14: Stages of the Tariff Approval Process 15

Article 15: Data to be Supplied by Licensed Service Providers..... 16

Article 16: Assessment of Tariff Adjustment Proposal – Overview..... 18

Article 17: Assessment of the Tariff Adjustment Proposal – Cost Analysis..... 19

Article 18: Assessment of Tariff Adjustment Proposal – Performance Analysis 19

Article 19: Assessment of Tariff Adjustment Proposal – Average Tariff 22

Article 20: Assessment of Tariff Adjustment Proposal – Particularities for the First Adjustment 22

CHAPTER 4: TARIFF IMPLEMENTATION AND MONITORING 23

Article 21: Tariff Implementation 23

Article 22: Monitoring of Tariff Implementation 23

INTRODUCTION

Traditionally, a water service provider has a local natural monopoly. This arrangement minimizes costs, since competition in this capital-intensive sector is costly. Communities benefit by allowing operations of a sole provider and thus avoiding that a second parallel system is built. However, an unregulated monopoly is considered a potential threat to customers. It can exert market power through high tariffs and supply of poor quality goods and services. Thus, without proper regulation society faces welfare deterioration due to a decline in the quality/quantity of the service. Environmental concerns also make a strong case for water sector regulation. Water and wastewater services are socially important and are always publicly scrutinized. It is in the interest of society for its members to consume necessary amounts of safe water and have access to proper sanitation.

In Albania, regulation of a natural monopoly is thus intended to ensure that the price of water and wastewater is appropriate relative to the quality of the service. Tariff regulation according to this Guideline consists of scrutinizing the costs, giving incentives to companies to improve for the benefit of all Albanians, structuring the tariff-setting process, and, finally, the approval of tariffs.

Pursuant to Law No. 8102 of 28th March 1996 “On the Regulatory Framework of the Water Supply and Wastewater Disposal and Treatment Sector”, and its amendments, the Water Regulatory Authority (WRA) of Albania is performing these important regulatory functions in the Albanian water supply and sewerage sector.

The objectives of the WRA in its approval of tariffs and other service fees are thus to:

- protect consumers against monopoly prices, and to
- enable licensees to recover reasonable costs incurred in order to deliver effective services, including the possibility to achieve some return on their investment that would be sufficient for improvements and other construction works.

The second purpose is particularly important. Most of the service providers in Albania are still not able to cover their current costs due to low tariff levels. It is therefore an immediate objective of tariff regulation to first achieve the coverage of operation and maintenance costs and later of the total costs. The WRA thus aims to support the gradual achievement of full cost recovery in accordance with the EU Water Directives.

However, price increases alone will enhance revenues, but these are likely to be resisted by households if service provider management and service provision are seen to be inefficient. For this reason, the tariff regulation by the WRA includes, as part of the approval process, taking into consideration of the progress made towards improved technical and financial performance, which will lead to enhanced cost recovery. Approval of price increases shall be conditional on the service providers achieving an improved level of technical and financial performance.

Striking the balance between protecting consumer interests while at the same time increasing the financial sustainability of service providers is the main objective of the WRA, as is set out in its Vision and Mission given below:

Vision

A financially self-sustainable water and sewerage sector that provides high quality yet affordable services to all consumers in Albania.

Mission

To ensure for all Albanians that water and sewerage service providers deliver the highest achievable quality at a fair price and in a financially sustainable manner.

CHAPTER 1: LEGAL AUTHORITY, APPLICATION OF THE REGULATION AND DEFINITIONS

Article 1: Purpose and Legal Authority

1. This Regulation was approved by the Commission as a Guideline 'to adopt the water tariffs and fees for water supply and sewerage service, both wholesale and retail ones, schedules and service conditions, offered by the operators providing these services' (Law No. 8102, Articles No. 14, 22).
2. This Regulation has been approved by the Commission on 28th September 2011 under Law No. 8102, Article 14 (I, i).

Article 2: Application of the Regulation

1. This Regulation shall be implemented by the water and sewerage service providers and be monitored and enforced by the Albanian Water Regulatory Authority (WRA) under the authority of Law No. 8102 (1996), Article 14 (I, b).
2. Service providers shall set water prices for different uses in accordance with the tariff structure set out in this Regulation and approved by the WRA under the authority of Law No. 8102 (1996), Article 14 (I, b).

Article 3: Definitions

'Water Regulatory Authority' is an independent institution that regulates the water supply and sewerage sector according to Law No. 8102 (as amended).

'Commission' means the National Regulatory Commission that heads the Regulatory Authority, which functions according to Law No. 8102.

'Consumers' are all (present and future) service beneficiaries in the categories domestic/household, public/institutional and private/industrial consumers who use the water supply and sewerage services.

'Water supply system' is a system comprising the following main components: intake /reservoir, pumping station, water reservoir, disinfection/chlorination unit, transmission mains and distribution network.

'Sewerage system' is a system comprising the following main components: wastewater discharge and disposal lines, main collectors and pumping stations for wastewater, discharge points into receiving water bodies and wastewater treatment plants.

'Average tariff' is a term resulting from the variable component of a 'two-part-tariff'. It is equal to the variable tariff if a service provider employs a unified variable tariff (→ no distinction between user groups and consumption levels).

'Fee for additional services' is used for all services of a water and/or a sewerage service provider which do not relate directly to the delivery of water and the discharge/treatment of wastewater but ought to be paid by customers for additional services.

'Full cost recovery' means the service provider costs for water and wastewater services shall be fully recovered from service charges levied on customers.

'Jurisdictional zone' is the area in which the licensed service provider is responsible for providing water and wastewater services.¹

'Lifeline tariff' – also called 'social tariff' – means a tariff that is designed to provide minimum amounts of water for the basic consumption needs of households at particularly low prices.

'Revenue' in its narrow sense means the money which is collected by the companies for services performed in the current year. However, when the WRA analyzes whether costs are being recovered through revenues, this always implies that additional income – e.g. from bad debts – and subsidies are also taken into consideration.

'Service provider' is an entity licensed by the WRA that carries out activities in the sector of water supply, gathering, discharge and treatment of wastewater, and provides one or several of these services according to the categories defined in the license. In this Guideline, for a number of requirements, a differentiation will be made between small and large providers.

Large service providers are defined as follows:

- service providers that provide only water supply services to more than 100,000 people within their service area;
- service providers that provide both water supply and sewerage services to more than 50,000 people in their service area;
- all service providers that are not included in the above categories will be considered small service providers.

'Tariff system' means the parameters, criteria and standards used in pricing water and wastewater services for different consumer categories and levels of consumption.

'Tariff structure factors' refer to the relative weights of tariffs given to the unit volumes of water consumption between different user groups and at different consumption levels.

'Tariff' is the specific value that arises from the particular tariff system of a service provider. It is used either for the 'flat tariff' or the 'two-part tariff'. The term **'price'** is used

¹ As currently laid down in the Decision of CoM Nr.660, dated 12.9.2007.

interchangeably. Both 'tariff' and 'price' always relate to the core activity of a water and/or a sewerage service provider: the delivery of water and the discharge/treatment of wastewater.

'Two-part tariff' consists of a variable tariff component and a fixed tariff component. The variable component is indicated as a price/m³. The fixed component is a fixed charge per year or per month. A two-part tariff can only be applied where meters are installed and read. Otherwise a 'flat tariff' has to be charged.

'Water Supply and Sewerage Services' is the entirety of the services performed by the service provider to customers via the water supply system and the systems for collection, disposal and treatment of wastewater.

'Wholesale of Water' is the situation in which water is sold to a wholesale buyer from one or several distribution points with the purpose of reselling to individual consumers within the service area of the wholesale buyer.

CHAPTER 2: TARIFF SYSTEM AND PRICING OF ADDITIONAL WATER AND SEWERAGE SERVICES

Article 4: Tariff Policy Objectives

1. The design of the tariff structure and the prices charged shall be prepared by the water service providers such as to fulfil the following policy objectives:
 - a) Cost Recovery: The tariff structure and prices set shall ensure cost recovery for the individual service providers whereby revenues exceed costs. The water service providers shall increase revenue collection in the following stages until full cost recovery is achieved:
 - i. Revenues cover Operation and Maintenance (O&M) costs;
 - ii. Revenues cover O&M costs, plus depreciation;
 - iii. Revenues cover O&M costs, plus depreciation plus interest charges on loans (if any).
 - b) Managerial Efficiency: Cost recovery shall be enhanced by systematic efforts to reduce service costs through improved management and technical efficiencies, reducing water losses in the system, reducing illegal connection, and by increasing revenues through improved collection efficiency. Measurable progress in the improvement of technical and financial performance of the water service providers shall be considered by the WRA before a tariff application is approved.
 - c) Affordability: The tariff structure shall set an affordable price for the basic consumption needs of low-income households, particularly in those areas where functioning subsidy schemes are not already in place. According to international standards, the lowest income decile of the population should not have to pay more than 5% of its household income for water and wastewater services².
 - d) Environmental Efficiency: The tariff structure shall set an economic price for higher consumption levels to encourage resource conservation and sustainable consumption, where this is needed under environmental considerations.

Article 5: Fundamentals of Tariff Design

1. Customer categories shall include:
 - a) domestic/household,
 - b) public/institutional, and
 - c) private/industrial customers.

² Albania has officially recognised these human rights standards through its co-sponsorship of the UN Resolution on the Human Right to Safe Drinking Water and Sanitation during the Human Rights Council on 24th March 2011.

2. Where clients are metered, a two-part tariff shall apply. A fixed component in a two-part tariff shall generally cover the fixed costs. The variable component shall generally cover the variable costs.
3. In the case where a water service provider faces problems with either the quality or the quantity of raw water the volumetric component of the tariff may be higher than just the variable costs. Such a higher variable component may give incentives to customers to save water.
4. In the medium term, the costs of providing water supply shall be allocated between the different user groups, particularly if a functioning subsidy scheme for low-income customers is absent. The volumetric component of the tariff will increase in line with consumption.
5. The costs of wastewater services shall be allocated between the different user groups based on the volume of water consumed. Tariffs charged will follow a progressive scale depending on the volume consumed and discharged. A wastewater surcharge fee shall be charged for heavy polluters³. A fixed component shall generally cover the fixed costs.

Article 6: Calculation of Costs

1. Costs shall be calculated on the basis of the National Charter of Accounts. In the medium term, companies are encouraged to calculate costs from historic cost data for individual service items obtained from an Accrual Cost Accounting System⁴ and an Activity Based Costing⁵.
2. Fixed costs for meter reading, customer billing and collection, and administrative overheads shall be calculated based on actual costs of the individual service components. Overhead costs for offices, administration, legal and personnel services shall be included in the fixed costs.
3. Volume-related costs for Operation and Maintenance (O&M) shall be calculated from the actual costs of power, chemicals, materials, personnel, transport, etc. used for providing and delivering potable water to the users and taking away and treating the wastewater to acceptable standards.
4. Costs of purchasing bulk water supplies shall be included at the unit-price paid by the service provider.
5. Depreciation shall be calculated each year.

³ Heavy polluters are considered those who cause pollution by undertaking chemical and technological production processes.

⁴ Accounting for expenses in the same accounting period in which revenue is generated.

⁵ Method of assigning costs to activities based on the resources that they consume.

6. Interest charges on loans taken out to finance new investments shall be included as a cost at the interest rate paid.
7. Further guidance will be given in a Cost Accounting Guideline issued by the WRA.

Article 7: Tariff Structure and Model to be approved by WRA

1. The tariff structure describes how different costs of water and sewerage services are charged to the different customers. It specifies how much (in ALL) customers in each category pay for these services.
2. The tariff structure should be used by the service providers to design a strategy that allows for the provision of a lifeline tariff for low-income households, particularly if a functioning subsidy scheme is absent.
3. Where metering exists (metered customers), the WRA will require two-part tariffs, of which
 - a) one part is a charge covering the fixed costs. This will be recovered from customers through a monthly fixed tariff component;
 - b) the other part is a charge associated with volumetric (usage) costs. A two-part tariff helps to ensure that a service provider does not significantly over- or under-recover fixed costs if its sales volumes or customer connections end up being different from those forecasted. It is Government policy that all customers are to be metered. Where service providers have not yet achieved this objective, they must propose a fixed monthly tariff for customers without meters (unmetered customers) and a plan to move to 100% metering.
4. For unmetered customers a flat rate tariff (the customer pays a pre-determined price without a volumetric specification) needs to be applied. This tariff should be set at a level that incentivizes the customers to switch to metered supply.
5. The tariff structure shall be based on a model developed by the service provider, which has to be approved by the WRA. The tariff design for the period given in the Tariff Adjustment Application under consideration shall show the following steps:
 - a) calculation of the revenues required to achieve the appropriate level of cost recovery for a service provider as approved by the WRA;
 - b) assessment of a lifeline tariff for low income groups, if applicable;
 - c) design of the tariff structure to implement policy objectives and establish fixed and variable components for the different user categories and, if required, consumption levels.

Article 8: Increasing Block Tariffs for Domestic/Household Customers with Meters

1. The WRA encourages service providers to propose an increasing block tariff for domestic/ household customers with meters, where higher tariffs apply for customers that consume beyond a threshold volume (for example 4.5 m³/month). With an increasing block tariff, the price per unit of water consumed must be lowest for the first block of consumption and higher in the second and – if applicable – following blocks. In order to avoid unfair tariffs, the service provider must separate existing shared connections. Shared connections should be replaced by individual metered connections provided by the service provider, or individual metering by the owner of the property.
2. If an increasing block tariff structure is chosen, the WRA requires service providers to propose consumption blocks for the different customer categories. The tariffs applied for the different consumption blocks in the three different customer categories shall be within the accepted ranges for tariff structure factors* presented below. Such broad ranges for the possible tariffs were chosen in order to take account of the very different customer structures of Albanian service providers.

Tariff Structure Factors for Different Consumption Blocks and Customer Categories

| Customer Category | Tariff Structure Blocks (cubic meters/month) | | | |
|----------------------|--|------------|------------|-------------|
| | < 4.5 | 4.5 to 20 | 20 to 30 | > 30 |
| Domestic/Household | 1.0* | 1.0 to 3.0 | 1.5 to 4.0 | 2.5 to 6.0 |
| Public/Institutional | 1.0 to 2.0 | 1.0 to 3.0 | 1.5 to 5.0 | 2.5 to 10.0 |
| Private/Industrial | 1.0 to 2.0 | 1.5 to 4.0 | 2.0 to 6.0 | 3.0 to 12.0 |

* factor = times

Example: For the domestic consumer category it would be acceptable for the price per cubic meter of water in the highest levels of consumption to be up to six times more than that charged for water used in the lowest levels of consumption. Similarly, industrial water consumption may be priced higher than domestic consumption.

Such an increasing block tariff is particularly suitable for areas where a functioning subsidy scheme for low-income households is absent. For the consumption of up to 4.5 m³, domestic/household customers would be charged a lower percentage of the average tariff.

3. If an increasing block tariff is chosen, the service provider also has to take care not to overprice the supply to certain consumer groups such as to avoid forcing the user to find an additional source or cancel its customer contract altogether. Uniform two-part tariffs may also be considered.

Article 9: Wholesale Tariff

1. The water wholesale tariff shall cover the cost of service provision and a potential profit margin (of maximum 5%). The determination of the cost for this service depends on the:
 - location of the wholesale connection points;
 - type of service to be provided.
2. The seller has to submit the purchase agreement with the buyer to the WRA. The WRA will inform the parties if any changes are required. If the WRA has not responded within 30 days the parties may regard it as a formal approval. In any case, the WRA has to approve the wholesale tariffs.

Article 10: Sewerage Service Tariffs

1. If a service provider is directly involved in providing sewerage services, it must calculate these costs separately from the costs of water supply services and also the total required revenues for the provision of sewerage services.

Where the service provider provides both water supply and sewerage services, it will allocate administrative and overhead costs between the two services in a proportionate manner, ensuring that the total sum is not exceeded.

In the medium term, cross-subsidizing of sewerage services from revenue resulting from water supply and vice versa is to be avoided.

2. The costs for wastewater services are determined by the amount of wastewater generated by each consumer. The amount of wastewater shall be 100% of the amount of consumed water.

Only in cases where customers obtain water from a borehole or other resources additional metering is needed. A fixed sewerage component apart from the volumetric component is possible.

3. A service provider may impose special surcharges for heavy polluters. In addition, special tariffs for e.g. on-site sanitation can be demanded. They should cover real costs.

Article 11: Other Fees

1. There are a number of other services which also cause costs to service providers and therefore have to be paid for by customers. The following list of other fees is not comprehensive and does not exclude other fees, if reasonable.
 - Fixed fee per bill
 - Connection fee
 - Reconnection fee
 - Meter installation fee
 - Meter testing fee

2. The standing (fixed) fee per bill is assumed to cover the cost of billing and meter reading, maintenance of the connection, and meter testing in regular intervals (at least every seven years). It is recommended to use a standing fee because it discourages customers from applying for several connections in order to profit several times from the lowest consumption block within a customer category.
3. A connection fee is levied only once when a new customer is added to the system by means of a single household connection. It includes the service of installing the water meter.
4. A reconnection fee should be charged whenever a client has been disconnected for a justifiable reason (e.g. non-payment of bill). The fee should be high enough to give an incentive to the customers for paying their bills on time.
5. A meter installation fee is applicable when a meter has to be replaced because of customer damage and for the installation of a water meter for an already existing connection.
6. A meter testing fee is a fee for the testing of meters. Meter testing can be initiated upon request of a customer or if the service provider notices any disorder. Fees for meter testing can be charged according to the conditions specified in the Water Supply and Sewerage Code.
7. All these fees – whether included in the list above or others – have to be included in the tariff adjustment proposal of the service provider. The WRA will analyze whether the fees charged for other services are reasonable compared to the costs involved for the service provider. If this is not the case, the WRA will give recommendations for adjustments both to the Supervisory Council and the management of a service provider.

CHAPTER 3: TARIFF ADJUSTMENT PROPOSAL AND PROCESS OF TARIFF ANALYSIS

Article 12: General Issues

1. Only licensed service providers can apply for a new tariff.
2. According to Law No. 8102, Article 22, Paragraph 3 “no tariff or part of it can be changed more frequently than once a year.”
3. There is a time window for tariff adjustments once per year. The WRA expects the service providers to submit Tariff Adjustment Proposals after the Annual Statements of the service provider are compiled. The Tariff Adjustment Proposal also requires information on all subsidies granted for the upcoming period.
4. Applications for modifying tariffs for the following year shall be submitted by the end of the sixth month of the current year. The WRA will not compromise on this deadline: Any proposals received after the deadline have to be resubmitted with updated figures for the tariff adjustments in the following year. The service provider is encouraged to submit its proposal as early as possible.
5. The same will apply if the WRA sets individual deadlines for clarifications or missing information and the service provider fails to adhere to these deadlines or if a service provider fails to transfer the regulatory fee to the WRA account until the required date.
6. A service provider may apply for new tariffs not just for one year but also for a 2-5 year interval. The tariff schedule would then foresee an annual stepwise adjustment of the tariffs for the period under review. This can be useful to avoid sharp increases. Furthermore, it could be used to accommodate inflationary adjustments.
7. If a service provider decides to apply for a stepwise adjustment of the tariffs, it is required to submit a business plan displaying the main projected figures for the respective period according to WRA guidance.
8. On the basis of the business plan the WRA is able to decide on the stepwise adjustment of the tariffs, which will be tied to performance targets individually agreed upon with the service provider. Tariff increases are only granted under the precondition that the service provider achieves the Key Performance Indicator targets. Tariffs will also be adjusted for the second and/or third year according to the difference between subsidies assumed in the tariff approval and actual subsidies granted for the upcoming year.
9. It does not necessarily have to be the service provider who initiates the tariff application process. The WRA can also suggest to a service provider to apply for new tariffs.
10. Service providers that operate small systems work in a particular context and face a number of specific challenges. For this reason, the WRA will issue a supplement to this

Guideline to specify the particularities of the Tariff Adjustment process for those service providers.

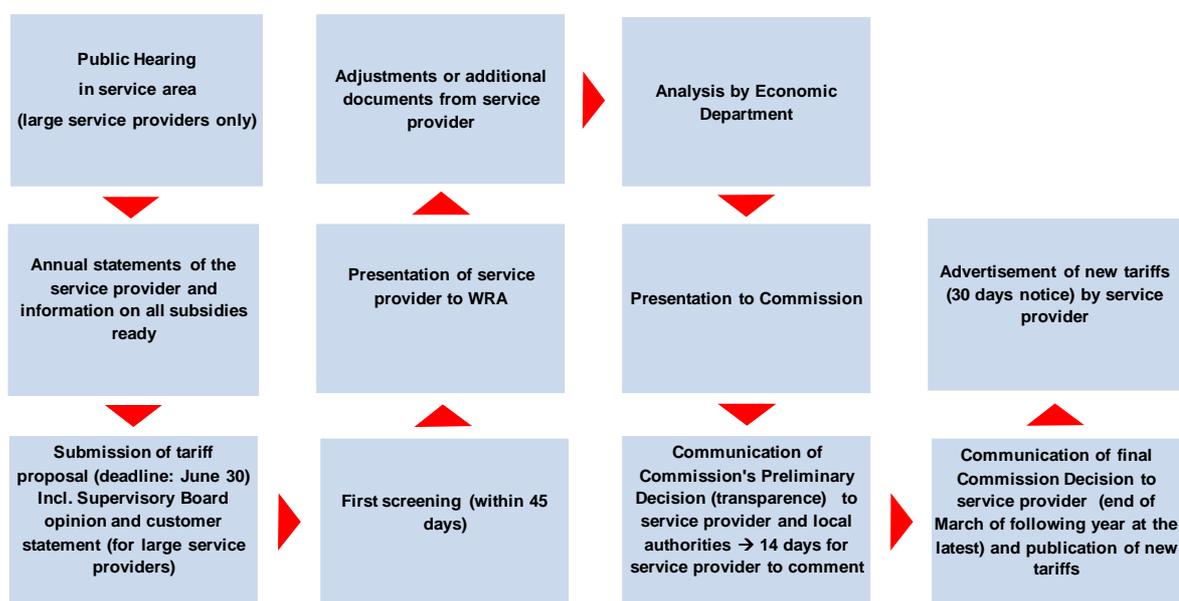
Article 13: Regulatory Fee

1. Regulatory fees are mandatory annual fees payable by all service providers. The utilities must have paid the regulatory fee before applying for a tariff adjustment.
2. Regulatory fees on accrued revenues shall be applied at different rates
 - a) for service providers that cover less than 50% of their total costs, and
 - b) for service providers that cover more than 50% of their total costs.

By September of each year, the WRA shall set and publish the percentage rates (one for each of the two groups), which will be applied in the following year.

Article 14: Stages of the Tariff Approval Process

1. The tariff application and approval process shall follow the stages set out below:



2. Before tariff adjustment proposals are submitted to the WRA, the large service providers⁶ shall hold a Public Hearing. The purpose of such a hearing is for a service provider to be accountable to its customers by informing them about the main developments and the reason for applying for higher tariffs. For smaller service providers holding a Public Hearing is recommended. The WRA should be informed in advance of the meeting and receive a statement of customer response, e.g. in the form of minutes of meeting afterwards.
3. If extraordinary circumstances (such as increase of major input prices, sharp rise in inflation) occur in such a way that total costs increase by more than 15%, and under the assumption that the service provider itself bears those costs, the service provider can contact the WRA to recalculate and adjust the tariff.

Article 15: Data to be Supplied by Licensed Service Providers

1. The Tariff Adjustment Proposal shall include the following documentation:
 - the annual accounts and auditor's report of the last financial year (in case they have not already done so as required by the WRA);
 - the Local Government opinion on the proposed tariffs⁷;
 - in the case of joint-stock service providers this shall also include the Supervisory Council's decision;
 - for large service providers: minutes of the Public Hearing;
 - subsidies⁸, which the service provider will receive for the period during which the proposed tariffs will be applied;
 - a detailed report on the technical and economic situation of the service provider;
 - a copy of the Water Supply and Sewerage Code signed by the Shareholders Assembly and the Service Provider.
2. Failure to submit any of the documents listed above will lead to a refusal by the WRA to review the Tariff Adjustment Proposal.

⁶ Large service providers are defined as follows

- service providers that provide only water supply services to more than 100,000 people within their service area;
- service providers that provide both water supply and sewerage services to more than 50,000 people in their service area.

⁷ The WRA expects the service providers to submit the opinions of all Local Governments in their service area, with at least 50% of the customers to be represented in the opinion(s) provided.

⁸ The service provider shall submit the amount of subsidies received in the previous year and subsidies for the current year according to the national budget. The WRA will take into account the actual subsidies and the prospective figures for the upcoming year in the course of the tariff approval process.

3. The detailed technical and economic report mentioned above shall contain the following data:

a) For water supply systems:

- an analysis of the current situation in the entire system comprising the elements water intake/reservoir, pumping stations, water reservoirs, disinfection/chlorination units, transmission main and distribution network;
- information on the main problems of the system related to the O&M costs, water losses, illegal connections, if any;
- information on the main problems related to water quality, if any;
- information about investments made in the last three years or since the last tariff approval, reporting on the main areas where these investments were made and also results achieved in terms of improving the service;
- information on the organisational structure of the service provider and the staff numbers with specifications;
- detailed information about the service area and its population, the customers served, and a summary of the customer register;
- information related to the fulfilment of the requirements of Decision No. 23, dated 09.01.2008, "Tariffs for the use of raw water";
- information on energy efficiency.

b) For sewerage systems:

- analysis of the current situation in the entire system comprising the elements wastewater disposal lines, main collectors, pumping station, discharge points into receiving water bodies, wastewater treatment plants);
- information on the main problems of the system related to O&M costs, if any;
- information about investments made in the last three years or since the last tariff approval, reporting on the main projects where these investments were made and also results achieved in terms of improving the service;
- information on the organisational structure of the service provider and staff numbers with specifications;
- detailed information on the service area and its population, customers served, and a summary of the Customer Register.

c) For wastewater treatment systems (where existent):

- detailed technical information on the wastewater treatment plant, including information on the treatment capacity, volume treated and energy efficiency.

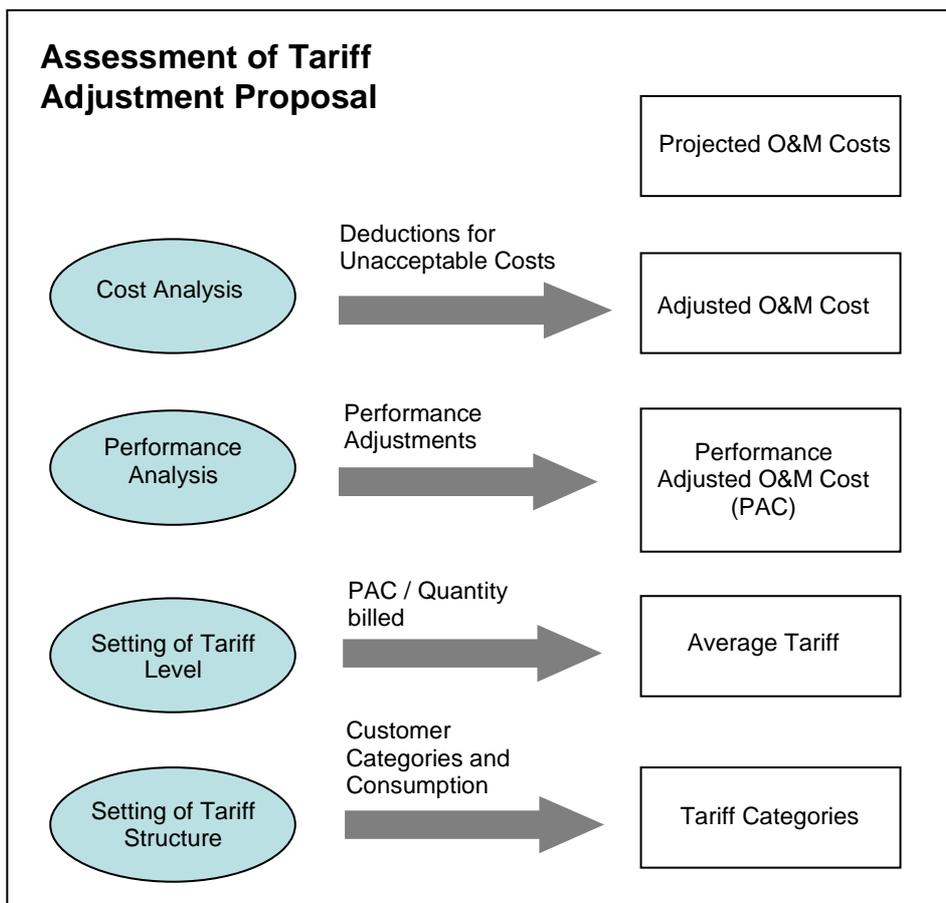
4. The WRA can also use the service provider data collected by the Monitoring and Benchmarking Unit of the General Directorate of Water Supply and Sewerage in the

Ministry of Public Works and Transport. These data will also be used by the WRA to analyze whether the Key Performance Indicator targets set by the WRA have been met.

5. The WRA may, based on Law No. 8102, carry out random detailed inspections to verify the data supplied by the service provider.

Article 16: Assessment of Tariff Adjustment Proposal – Overview

1. The analysis of the tariff proposal will follow the structure as outlined in the figure below. The starting point is the “Projected O&M Costs” submitted by the service provider. Deductions are made for unacceptable costs and adjustments made to take account of the performance of the service provider, which are results of the cost analysis and the performance analysis respectively. The outcome is the “Performance Adjusted O&M Costs”, which the WRA allows the service provider to recover through revenues and which determines the average tariff. The different tariff categories are derived from the average tariff, taking into account the consumption pattern. While the figure below provides only a general overview, details are explained in the following articles.



Article 17: Assessment of the Tariff Adjustment Proposal – Cost Analysis

1. The WRA will decide the extent to which O&M expenditures of service providers are “reasonable and necessary” for the provision of efficient services. Therefore it will undertake a cost analysis for the service provider. This will be done to ensure that consumers are only paying for justified costs and are protected against excessive tariffs.
2. The WRA will not only analyze the costs of a service provider, but also compare the costs with those of other similar service providers. If the explanations given by the service provider are not satisfactory to convince the WRA that the current level of increases is justified, they may propose deductions from the projected costs. The reasons for deductions shall be clearly explained.
3. In certain cases, the WRA may “fast-track” the process of the tariff application. “Fast tracking” means the WRA will streamline the approval process and exercise less scrutiny on specific expenditure items. Service providers that will be eligible for fast-tracking may include those that are small schemes, and service providers that are meeting or exceeding performance targets. Fast tracking will be at the discretion of the WRA.

Article 18: Assessment of Tariff Adjustment Proposal – Performance Analysis

1. The performance analysis will concentrate on certain indicators to determine whether there are deviations from the agreed performance. These indicators are:
 - 1) Non-revenue Water (NRW)
 - 2) Level of Metering
 - 3) Drinking Water Quality
 - 4) Service Hours
 - 5) Energy Efficiency
 - 6) Staff Efficiency (Staff/1000 connections)
 - 7) Water Coverage
 - 8) Sanitation Coverage/Environmental Protection
 - 9) Regulators’ Perception⁹
 - 10) Extraordinary efforts and initiatives to improve efficiency, service or access
 - 11) Collection Efficiency¹⁰
2. For indicators 1-9 and 11, the service providers are set different performance targets. Indicator 10 is a qualitative indicator where service providers can be rewarded for special initiatives that demonstrate their commitment to good performance.
3. The following table shows how the score for the performance assessment is calculated:

⁹ The KPI Regulator’s Perception will be evaluated with a transparent approach, which will include elements such as reaction time and quality of service providers’ response to requests by the WRA, timely payment of fees to the WRA, etc.

¹⁰ Indicator 11 (Collection Efficiency) will be used in Article 19.

| Score according to indicators | Min | Max |
|--|-------------|-------------|
| 1) Non-Revenue Water (NRW) | -20 | +10 |
| 2) Level of Metering | -20 | +10 |
| 3) Drinking Water Quality | -15 | +7.5 |
| 4) Average Service Hours | -15 | +7.5 |
| 6) Energy Efficiency | -20 | +10 |
| 5) Staff Efficiency (Staff/1,000 connections) | -20 | +10 |
| 7) Water Coverage | -15 | +7.5 |
| 8) Sanitation Coverage/Environmental Protection | -15 | +7.5 |
| 9) Regulators Perception | -10 | +5 |
| Range of Scores | -150 | +75 |
| Bonus | | |
| 10) Extraordinary efforts and initiatives to improve efficiency, service or access | 0 | +75 |
| Overall range of scores | -150 | +150 |

4. The failure of a service provider to achieve agreed performance targets and set standards (Indicators 1-9), have a negative impact and will lead to a deduction in the performance assessment. If a service provider achieves its targets for these indicators, it will neither receive a deduction nor a bonus, but 0 points.
5. If a service provider outperforms its targets for Indicators 1-9, it will be granted bonus points. Bonus points will be allocated according to the degree of overachievement (up to maximum amount as indicated in the table).
6. The WRA will also consider granting an additional bonus for extraordinary efforts and initiatives to improve efficiency, service or access (Indicator 10). The reason for granting a particular bonus in the range of 1-75 points will be specified in the Commission's Decisions (preliminary and final).
7. The total score is then transformed into monetary terms as a percentage of adjusted costs (see Article 18). The maximum reward/penalty amounts to +/- 5% of the adjusted costs for Type I service providers (O&M costs not yet covered) and +/- 10% of the adjusted costs for Type II service providers (> 100% O&M cost coverage). The following table shows the exact amounts according to performance:

| Total Score* | Performance Adjustment Type I | Performance Adjustment Type II |
|---------------------|--------------------------------------|---------------------------------------|
| 150 | 5% | 10% |
| 140 | 4.67% | 9.33% |
| 130 | 4.33% | 8.67% |
| 120 | 4.00% | 8.00% |
| 110 | 3.67% | 7.33% |
| 100 | 3.33% | 6.67% |
| 90 | 3.00% | 6.00% |
| 80 | 2.67% | 5.33% |
| 70 | 2.33% | 4.67% |
| 60 | 2.00% | 4.00% |
| 50 | 1.67% | 3.33% |
| 40 | 1.33% | 2.67% |
| 30 | 1.00% | 2.00% |
| 20 | 0.67% | 1.33% |
| 10 | 0.33% | 0.67% |
| 0 | 0.00% | 0.00% |
| -10 | -0.33% | -0.67% |
| -20 | -0.67% | -1.33% |
| -30 | -1.00% | -2.00% |
| -40 | -1.33% | -2.67% |
| -50 | -1.67% | -3.33% |
| -60 | -2.00% | -4.00% |
| -70 | -2.33% | -4.67% |
| -80 | -2.67% | -5.33% |
| -90 | -3.00% | -6.00% |
| -100 | -3.33% | -6.67% |
| -110 | -3.67% | -7.33% |
| -120 | -4.00% | -8.00% |
| -130 | -4.33% | -8.67% |
| -140 | -4.67% | -9.33% |
| -150 | -5.00% | -10.00% |

*The total score will be rounded to the upper or lower tenth.

The Performance Weighted Adjusted Costs contain the penalties/rewards for performance as well as adjustments for unjustified costs. The Performance Weighted Adjusted O&M Costs are the costs that WRA allows the service provider to take into account. If the service provider does not perform well it will incur a deficit. Otherwise it will make a profit.

Article 19: Assessment of Tariff Adjustment Proposal – Average Tariff

1. In the calculations for the average tariff the efficiency indicator “Collection Efficiency” (11) is taken into account. By applying the agreed target for this indicator in the calculations as outlined below, the service providers are automatically penalized if they fail to achieve the set performance target or rewarded if they outperform the set performance target.
2. The following calculations show how the average tariff (excluding Collection Efficiency) is derived:

| |
|--|
| Performance Weighted Adjusted Costs |
| / Projected Quantity Billed (in m ³) |
| = Projected Average Cost (per m ³) |

| |
|---|
| Projected Average Cost (per m ³) = Projected Average Tariff (per m ³) |
|---|

3. Collection Efficiency and determination of final average tariff: While the formula “Projected Average Cost (per m³) = Projected Average Tariff (per m³)” is generally binding, it implies a collection efficiency of 100%. However, it is recognized that most service providers will not be able to collect 100% of the billed amount. Incentives shall be set to continuously increase the collection efficiency.

Therefore, the performance target will be set in consideration of the current levels of each individual service provider. This performance target is then applied to calculate the adjusted average tariff, including collection efficiency.

Example: If the Projected Average Tariff (excluding collection efficiency) is 100 ALL and the performance target for Collection Efficiency is 85%, the Average Tariff will be

$$100/(85/100)=100/0.85=117.65 \text{ ALL.}$$

Article 20: Assessment of Tariff Adjustment Proposal – Particularities for the First Adjustment

1. During the first implementation year (2011) of this Guideline, the submission deadline for tariff adjustment proposals is extended until November 31st 2011. Public Hearings will not be required in 2011, but for the large providers this will be compulsory from 2012.
2. In this first round, tariff adjustments will only be granted for a one-year period.
3. For the first Tariff Adjustment Proposal of a service provider in accordance to this Guideline, only the cost analysis shall be carried out. In addition, a first set of Key Performance Indicator targets for each service provider will be set by the WRA for assessment in the course of the subsequent tariff adjustment.

CHAPTER 4: TARIFF IMPLEMENTATION AND MONITORING

Article 21: Tariff Implementation

The service provider shall give customers one month's notice prior to implementing a tariff increase. The service provider shall notify customers by placing announcements in the newspaper and including a notice with the customer's water bill. In addition, the service provider shall ensure that the documentation of the current tariff is available to all customers during business hours. The service provider shall post copies of the tariffs in various locations to which the public has access to, including but not limited to pay stations or public affairs offices of the service provider.

Article 22: Monitoring of Tariff Implementation

The WRA will monitor the correct implementation of tariffs as described in this Guideline. If the WRA finds that the service provider adopts a tariff that is in excess of the approved tariff adjustment, it will apply penalties as stipulated in Article 32/1b of Law No. 8102 (as amended). In case the service provider has overcharged customers, it shall correct the tariff in the next billing cycle and issue a refund for the amount overcharged to each customer affected by the incorrect application of the approved tariff adjustment.