WATER REGULATORY AUTHORITY

ANNUAL REPORT 2019

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Water Regulatory Authority (WRA)
St. "VIKTOR EFTIMIU"
Building 1, IV Floor
Administrative Unit Nr.5, 1022
Tirana, Albania

E-mail: public@erru.al
Tel.: +355 4 2258046
http: www.erru.al

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REPUBLIKA E SHQIPËRISË

ALBANIAN WATER SUPPLY AND WASTE WATER
DISPOSAL AND TREATMENT REGULATORY AUTHORITY

ANNUAL REPORT
2019

ACTIVITY OF WATER REGULATORY AUTHORITY
AND
SITUATION IN THE WATER SUPPLY AND
SEWERAGE SECTOR

JANUARY, 2020

Summary

Annual of WRA Activity's Report 2019 as an Instrument of Analysis, Information and Transparency

Drafting of the Annual WRA Activity's Report is a legal obligation of the WRA with aim to inform with transparency the Albanian Parliament, Council of the Ministers, the public and other stakeholders in the water sector.

WRA Mission is: *To ensure for all customers in Albania that water and sewerage service providers deliver the highest achievable quality at a fair price and in a financially sustainable manner*.

The report gives a detailed analyzes of WRA activities in fulfilment of the above Mission, as well it's objectives in order to reinforce his role as an indipendent institution. In a separate chapter report analizes the situation and the water sector giving also the recommendations it's performance improvement in the future.

WRA, Legal Status and Responsabilities

The main legal basis of WRA's activity as an independent institution is Law no. 8102, dated on 28.03.1996, "On the Regulatory Framework of the Water Supply and Sewage Disposal Sector", as amended. This law entrusts the WRA with the responsibility of setting UK utility tariffs for WWS utilities, licensing WWS utilities, and protecting consumer interests in a monopoly environment by the risk the utilities provides low quality of the services and with higher unjustified prices.

Licensing of WSS Utilities

During 2019 are licensed 17 utilities. In total there are 49 out of 57 utilities licensed by WRA. There are still remaining 8 utilities unlicensed, respectively, 2 of them are in the process of renewing, 4 it is expired the validity date of the license, and 2 there are new utilities never been licensed. The main reasons for not being licensed are due to the difficulties to carry out the inventory of assets and register them in the NBC and appointing the required qualified technical managers, as foreseen in Sanitary Approval Act. The WRA has consistently raised the above issues near to the Ministry of Infrastructure and to the National Health Inspectorate giving also the recommendations to revise the bylaws regarding the nomination of technical directors for the small utilities, and in particular regarding the issues for obtaining the Sanitary Hygiene Approval Act.

Tariff Approval Process for WWS Services

During 2019 the WRA has approved tariffs for 12 utilities, namely Gjirokastra, Poliçan, Delvina, Tropoja, Malesi e Madhe, Lushnje, Berat-Kucova, Vlora, Kruja, Himara, Vora and Roskovec.

The main reasons of the application for the new tariffs, have been the unification of tariffs throughout to the all-new service area as a result of its increase by the last territorial reform, as well as, increasing the revenues in order to cover the Direct and/or Total Direct Costs of the UK services

The WRA tariff approval process is subject of a detailed analysis that considers only reasonable and justified costs, which should be closely related to the performance improvement of the utilities to the quality of the services provided to the customers. WRA uses during the tariff's approval process also the tariffs affordability criteria, i.e. the monthly water bill amount should be less than 5% of the monthly household expenditure. The implementation of this important criteria during 2019 has been enriched with further details of its assessment based on the new data that INSTAT, which makes available the data in deciles to the average monthly household expenditures, and for each county in Albania. The international experience is taken into consideration, as well.

Handling Customer Complaints

The WRA, through its handling of customer complaints, aims to ensure that UK utilities comply with the Water Code (Water and Sanitation Regulation) as well as the general terms and conditions of their contract with customers. During 2019 the WRA has reviewed and dealt with 18 complaints received mainly from household customers. The nature of the complaints filed have been about abuses by flat rate billing the customers, and also regarding the issues with the quality of service provided by UK companies. The WRA has treated customer complaints with full seriousness and objectivity. In the end 6 of them have had a final and satisfactory solution in favour of the consumer, while others are still pending, or customers have been recommended to refer to the Administrative Low Court.

Improving Standards in the UK Sector through Regulatory Instruments

During 2019 the WRA continued to work on improving regulatory instruments related to the tariff approval process, namely:

"Tariff Setting Methodology", the draft of which is completed, including best practices from WAREG Regulators (Water Regulatory Association of Europe). The final approval of TSM by the Regulatory Commission is expected after the approval by the parliament of the new water sector law, because there are included on it some new elements of the draft revised tariff methodology.

The new draft takes into account the reality of the sector where most UK companies are financially unsustainable, as well as the case of the companies with very good financial performance, which apply for tariff changes in order to cover also their investment needs.

One of the important details of the new TS methodology is the clause about the obligation for companies to submit a 5-Years Business Plan when proposing new tariffs.

“Regulation on the Procedure of Customers Claiming to the National Regulatory Commission vs an Water Operator”, pursuant to the Recommendations of the Parliament Resolution 2019 was adopted in April 2019. Drafting and approval of this document was necessary in order to protect consumers interests for a fair and efficient resolution of their complains versus the operators by establishing clearer and understandable rules for the parties, as well as adding effective remedies, such as playing the role of the mediator or public hearings etc.

“Data Base Platform for Data Collection from Water Supply and Sewerage Companies” was approved by Decision no. 31, dated 28.06.2019, as a need to avoid the ongoing problems that WRA has had over the years on the dependence of data obtained from the benchmarking monitoring directorate at AKUM. These data serve as the basis for the drafting of the WRA Annual Report on the water sector performance, but they constantly presented problems of reliability and inaccuracy. WRA has implemented its own platform in Excel easily to operate by utilities management and monitored by WRA.
The new data platform during processing data reported by each utility gives the opportunity to WRA to control and monitor the data accuracy and reliability, as a permanent problem of the sector.

“Water Balance Report Drafting Model” The draft was conceived as a model for the drafting of every annual water balance report, not only for the sector in general, but also for every UK company in particular. It provides details and guidance that serves to draw important conclusions and recommendations regarding the action plans UK Companies should pursue to reduce Non-Revenue Water, respectively administrative and physical losses.

“The Affordability Study” The affordability represents one of the basic criteria that WRA considers during the process of approving the tariffs proposed by the Utilities. The necessity for a deeper analysis for a consistent application of this criteria come out also during the revision process of the new tariff approval methodology.
The study was referred to the experience of other European regulators. In meantime, there are used the current data in deciles provided by INSTAT regarding the average monthly household expenditures for each county in Albania. The study gives the opportunity to the utilities by respecting the affordability criteria to estimate what are the margins of the tariff increase they can propose in order to cover by tariffs partly or totally their physical investments needs.

Revenues and* Expenditures *of WRA

The main sources of financing of WRA activities are by the annual regulatory fees set out in the contracts with UK Companies, as well as, the licensing fees.
The total income of WRA from the above fees during 2019 was 48,361.894 ALL. Referring to the contracts in force during 2019 the total amount of the regulatory fees to be paid by UK companies was in 49,208,130 ALL, which was almost in line with the planned activity budget expenditures of WRA. The total amount of expenditures incurred by WRA during 2019, were 40.136.857 ALL out of 50.249.000 ALL planned. The main reason of this difference with planned amount comes out by the savings from the tenders of different items on the budget, demission of two Commissioners during 2019, and the maternity leave for two staff members. At the end of 2019, the cash situation available in the WRA bank account fully guarantees the forecast of the expenditures planned for the 2020 budget.

UK Sector Performance and Analysis of Each Indicator

The WRA continuously monitors and analyses the performance of each operator and the sector, as a whole regarding the quality of the services provided, and in particular the tariffs the operators apply to the customers if they are in line with those approved by ERRU. Monitoring and analysis are carried out on the basis of the Key Performance Indicators for 2019 and their trend compared to the previous year 2018, as shown in the table below.

Key Performance Indicators	2018	2019	Tendency
Water Supply Coverage (%)	77	77.2	↗
Wastewater Sewerage Coverage (%)	52	52.9	↗
OPEX Cost Coverage (%)	119	108.3	↘
Current Collection Rate (%)	79	79	=
Metering Ratio (%)	74	77.5	↗
Non-Revenue Water (%)	63	63	=
Staff Efficiency (staff/1000 connections	5.35	5.31	↗
Continuity of Water Supply (hours/day)	12.7	13.2	↗

Referring to the Key Performance Indicators it is noticed that the situation in the sector compared to 2018 had a negative trend regarding the financial indicator of Direct O&M Costs Coverage, while the other indicators in general are improved. Taking in account that the Non-Revenue Water and Current Collection Rate indicators have remained unchanged during 2019, the deterioration of the financial situation has resulted from increased O&M costs, as the revenues almost have remained at the same levels.
In details the Performance indicators are analyzed, as follows:

"Water Supply Coverage" for 2019 is almost at the same level of the previous year, nevertheless the investment made for the extension of the distribution of the networks for the new customers. Improving this indicator requires significant physical investment mainly towards the “white” rural areas, which became part of the service area of the utilities after territorial reform. In those area is almost missing the water supply systems

"Sewer Coverage" has increased by about 1% compared to 2018, reaching 52.9%, because the population served increased by 152 850 residents compared to the population in the jurisdiction that was increased by 232 621. Increasing impact of the population served with sanitation have been by investments made mainly made by the state budget. There are still 54,323 connections reported they use the septic tanks to collect the wastewaters. Improving this indicator also requires considerable physical investment.

"Direct Operating and Maintenance Cost Coverage"
OPEX Cost Coverage is the indicator that expresses the coverage by revenues of the costs for personnel, energy, chemicals, various leases, fuel, contracted services and other costs related to operation and maintenance. Overall, for the sector, this indicator is financially stable although it has decreased from 119% to 108.3%. However, the sector is facing major financial performance problems where only 13 companies manage to cover perform over 100% of OPEX Cost, while 4 of them can cover also the Total Costs (CAPEX). For 2019, the entire sector results in O&M costs being covered over 100% because the largest positive impact is given by Tirana, which performs with 162% of this indicator, and has in their database about 1/3 of all customers in the sector.

"Current Collection Rate" This indicator represents the ratio of the revenues collected towards the billed amount for services provided by the company to the customers. This indicator remains at the level of 2018, i.e. 79%. Among the companies with very low levels of this indicator (below 60%) are UK Kukes, UK Divjake, UK Kavaje, UK Gjirokaster, UK Fier, UK Pustec, UK Roskovec, UK Elbasan. WSS Durres and WSS Vore justify the decline of this indicator due to the strong earthquake in November, which bring into missing of the bill collection for the two last months of the year. WRA sets aggressive targets of the collection rate for UK companies when apply for the new tariffs in order to avoid the artificial high tariff increase maintaining relatively low collection rate.

"Non-Revenue Water" (NRW), during 2019 remained at the same level of 2018. There are reported 24,350 new connections and an increase in billing volume by about 668 thousand m3 water/year.

The increase in the volume of billed water should have been more significant, but its minimal increase has been impacted by the installation of 50 thousand meters. This brought into the reduction of the household consumption from the average of 18 m3 per month (for 4-person per family) into about 12m3 per month per household with the same family occupancy. Companies with poor performance on this indicator (over 70%) are UK Berat Kuçova, Cerrik, Durres, Fier and Vlora. The sector reform foresees measures to reduce NRW by implementing action plans against the illegal connections, metering 100% of the customers, and the water production. The WRA has strengthened the requirements and provided a model for UK utilities to present a realistic water balance in their water supply systems as a key element in developing appropriate NRW reduction action plans.

"Metering Coverage" indicator has improved by 4.2% compared to 2018. About 50,000 water meters were installed during the year. The sector reports that there are still 199,543 customers without meters, of which 8,201 are private or budget institutions customers. Customers should be billed for the volume of water they consume rather than in a flat rate way.
It is found that almost all companies have improved this indicator, while only UK Devoll could have 100% metered service. If will continued with the rhythm of the meter installation of the last two years, at the end of 2022 all the customers will be billed according to metered consumption.

"Staff Efficiency" indicator was during 2019 at the level of 5.31 employees per 1000 UK connections with a slight improvement of 0.04% comparing with 2018. During 2019 the number of water supply connections increased by about 24,349 connections and those of the sewerages by about 31,582. Taking into account that during 2019 the total staff of UK utilities in the sector increased by 254 employees, this was the reason of remaining quite unchanged the level of this indicator in comparison with 2018.
In many utilities this indicator was artificially high due to the fulfilment of the legal obligation to guarantee the health public safety by hiring the personnel of the guardianship for different elements of the water supply systems as, reservoirs, pumping stations etc. However, the UK companies in general are overburdened with unjustified employees, which is more evident during the election years such it was 2019. WRA has strengthened the requirements towards the utilities to provide the right arguments in justifying each position of its staff with the relevant job description.

"Continuity of Water Supply" indicator was improved comparing with the year 2018 from 12.7 hours/day into 13.2. The improvement of this indicator is relevant for the utilities of Tirana, Durres, Fier etc. Anyway, the improvement of this indicator should be taken with some reserves because in many cases tit is estimated not in appropriate way.

The final assessment of the sector's performance will be provided by the WRA in its 2019 annual performance report drafted and submitted in end of June where it is possible to have a more detailed assessment and to exclude any unreliable evidence or data.

Investments in the Sector from the Budget and from the Foreign Donors

The water supply and sewerage sector in our country needs physical investment to fulfil the requirements of the European Water Directive. The needs for physical investment in the sector are around 5 billion euro, which projected in 25 years corresponds to an amount of about 200 million euro per year. The Central Government for 2019 has spent for the investment in the WWS sector an amount of 4,432 billion ALL, equivalent to about EUR 35 million, from which approximately 300 million ALL are spent in support of sector reform, respectively, Durres 76.6 million ALL, Malesi e Madhe 50 million ALL, Rrogozhine 49.5 million ALL, Vau i Dejes 35 million ALL.
Foreign donors have invested a total amount of 34 million euro during 2019, in particular those financed by the WB and EIB for Durres, the Italian Government-funded Tirana distribution networks project, as well as the municipal infrastructure program III and IV funded by KfW and SECO. The amount of funded investments from the foreign donor is almost equal to that of the Central Government. The total of around € 70 million represents about 35% of the sector's needs of 200 million €/ year.

WRA Objectives for the Year 2020

- ❖ In case of non-approval of the new draft law on the water supply and sewerage sector, follow the procedures for reviewing the Law no. 8102 for WRA until its final approval.

- ❖ Completion of work on revising and drafting the "Water Tariff Setup Methodology", in line with the requirements for contemporary sector management, incorporating the best practices of European regulators into it.

- ❖ With the support of donor assistance, aim at revising the Water Supply and Sewerage Code (Water supply and sewerage regulation into the service area of water supply and sewerage company).

- ❖ With the support of donor assistance, aim to develop for the WWS companies a guide and template to draft a5 Year Business Plan, including relevant training needed for this purpose.

- ❖ Encouraging the awareness and play an active role to start implementing 2-3 pilot examples of successful aggregation of WWS utilities in a very fragmented sector, as one of the key directions of the strategy to improve of the sector performance.

- ❖ Encouraging the awareness and play an active role in reviewing the legal provisions related to the Sanitary Hygiene Approval Act that WWS Companies should obtain, as a mandatory condition to be licensed by WRA.

- ❖ Compile and publish the annual performance report of WWS sector for 2019 with data collected by companies and checked by the WRA according to the platform database provided by WRA.

- ❖ WRA to strengthen efforts to strengthen the role of WRA in support and assistance in resolving customer complaints with respect to the Water and Sewerage Code, and other legislation in the water and sanitation field.

- ❖ Enhance the professional capacity of staff by properly planning their training with internal and external resources while also taking advantage of extensive and bilateral cooperation with European Water Sector Regulators.

- ❖ Actively participate in all Working Groups and activities in a national and international levels where are addressed the key strategic and specific issues of the WWS sector and in particular those about the regulatory framework.

- ❖ Continuing relations between institutions to strengthen cooperation with the Ministry of Infrastructure and Economy and other key stakeholders in the water sector in support of the reform strategy to improve the performance of the sector.

Recommendations for Improving the Performance of the

- Review and approval of amendments to the law no. 8102 on the Water Regulatory Authority proposed by the WRA by the Albanian Parliament, whether or not the draft law on the water sector is adopted.

WWS Sector and WRA

- Rescission of the current Water Supply and Sewerage Code (Water supply and sewerage regulation into the service area of water supply and sewerage company), and its revision and approval by the WRA, as a necessity in response to current sector requirements, and as a main reference of the consumer complaints treatment by WRA.

- Drafting for the WWS companies a guide and template to draft a5 Year Business Plan, as the basic document in support of the tariffs proposed by them, and as a practical tool for improving company management in terms of the financial sustainability.

- Drafting the necessary bylaws by the Ministry of Health in cooperation with the Ministry of Infrastructure and Economy regarding the procedures for issuing the Hygienic Sanitation Approval Act for WWS companies and the Regulation of Hygienic Sanitary Inspections for water supply and sanitation systems of wastewater, in support of increasing the public health safety, and reduce the risk of contamination of the water in distribution networks.

- Launch as soon as possible the process of aggregation of UK Companies as an advantage of economies of scale based on the principle of "on a voluntary basis and with incentives from the central government" aiming initially to achieve 2-3 successful aggregations, where WRA should support with the estimation of the aggregated tariffs in selected aggregate cases.

- Promote improved performance of UK Companies by drafting Performance Contracts between AKUM and Municipalities based on Performance Indicators and Objectives evaluated in accordance with the real situation of WWS Companies and strategic goals for the future.