

TS1B: Establish processes, rules, and responsibilities for systematic tariff adjustment

REGULATORY FUNCTION: TARIFF SETTING		TS1B
OBJECTIVE TS1 Tariff systems, relevant procedures and responsibilities are validated	ACTION CARD TS1B ESTABLISH PROCESSES, RULES AND RESPONSIBILITIES FOR SYSTEMATIC TARIFF ADJUSTMENT	
COST: Low FREQUENCY: Regular TARGET GROUPS: Regulators, relevant authorities and policy makers, parliament, consumer associations		
DESCRIPTION Once defined, tariff guidelines serve the sector in setting the price for services. However, economic, political, or other factors such as disasters or conflicts may force regulators to adjust tariffs in certain geographic areas or after extraordinary events. Following the necessity of being transparent and inclusive in decision-making, regulators must establish clear criteria for tariff adjustment, detailed procedures, and assign responsibilities and roles. Transparent and predefined mechanisms allow for an adequate, timely and systematic review of tariffs on a regular or random basis.		
EXPECTED OUTCOMES <ul style="list-style-type: none"> • Tariffs adjustment adequately reflects inflation, deflation or changes in the cost of living, investments, and operation. • There is transparency and predictability regarding tariffs, in which every social group pays for delivered services. • There is established equity among different user groups through tariffs, which are based on their respective socio-economic situation. • There is sustainable operation and investment management for operators and policy makers through tariffs, which adequately reflect the optimal cost of delivered services. 		
EXAMPLE 1: KENYA In Kenya , the tariff review process focuses on balancing commercial and social interests in water service provision. When adjusting tariffs, the Water Services Regulatory Board (WASREB) eliminates any costs that may result from inefficiency and which should not be borne by consumers. Steps for the review process are as follows. <ol style="list-style-type: none"> 1. Pre-consultation: WASREB receives proposals made by water service providers, makes its first technical revision, and proposes adjustments until they agree on a draft tariff to share in public consultation. 2. Consultation: WASREB invites key stakeholder groups (residential consumers, commercial consumers, local authorities, civil society organizations, women organizations, religious organizations). The agenda should include information on why an update is needed, and information on the proposed tariff system. 3. Post-consultation process: a full report on the results of the consultation process is submitted to WASREB. 4. WASREB post consultation: WASREB analyses the proposal and inputs given by stakeholders in the consultation phase. It then issues a decision on the new tariff system. 5. Publication of the new tariff: the decision should be published in the Kenyan National Gazette. 		
EXAMPLE 2: TANZANIA In Tanzania , the Energy and Water Utilities Regulatory Authority (EWURA) is mandated to review rates and charges either when an application is lodged by an applicant, or when the authority finds it necessary to do so as stipulated in Section 17 of EWURA Act (Cap 414). The procedure for tariff application is provided under the Tariff Application Guidelines (2017) and EWURA (Tariff Application and Rate Setting) Rules 2017, GN 452 . Decisions reached by the authority is communicated through written tariff orders. Tariff orders are usually attached with conditions that need to be fulfilled by applicants within a specified time period.		

EXAMPLE 3: BOLIVIA

In Bolivia, Law 2066 stipulates that the review and approval of tariffs is to be carried out every five years on the basis of studies performed by the concessionaire using the terms of reference provided by the Superintendency of Basic Sanitation, which shall provide a reasoned approval or rejection of the studies performed. Formulas for concessionaire rate, tariff and price indices should include: a component that reflects adjustments due to variations in company costs, according to price index variations that directly impact the sector, b) a component that transfers regulation rate variations, c) compensation variables for lower consumption categories in accordance with the regulation. When Drinking Water or Sanitary Sewerage Services are provided directly by a municipal government, the Superintendency of Basic Sanitation shall send the Ministry of Finance a recommendation on the water rate level so that such Ministry can submit a technical report to the National Senate according to the powers granted by law to municipalities.

EXAMPLE 4: ARGENTINA

The binding instrument (Federal Planning, Public Investment and Services Ministry [MPFIPyS] Resolution No. 170/10) stipulates “Five-year economic reviews” as well as “Annual economic reviews” and “Special economic reviews due to acts of God or force majeure.” The five-year review is to begin a year before the five-year period ends, and relates to tariffs, costs and the Improvement, Operations, Expansion and Service Maintenance Plan to be implemented in the next five-year period. The annual review seeks to adjust revenue to operational and investment costs in order to fulfill the abovementioned Plan, and is based on the plan progress status, the situation driving the review and the measures adopted to avoid it, and the measures proposed to reestablish a financial balance. The special review is carried out when the concessionaire believes that there have been or will be issues affecting works plans, which may require the Enforcement Authority to conduct an impact assessment and issue proposals to mitigate or revert such impacts.

LINKS

Kenya: WASREB Guidelines on the tariff approval process:

<https://wasreb.go.ke/downloads/GUIDELINES%20OF%20PUBLIC%20CONSULTATION%20FOR%20TRFF%20APPROVAL%20PROCESS.pdf>

Tanzania: https://www.ewura.go.tz/?page_id=221

Bolivia: Tariff review system:

https://sea.gob.bo/digesto/CompendioII/O/160_L_2066.pdf

Argentina: Binding instrument reviews:

https://www.argentina.gob.ar/sites/default/files/resolucion_ssrh_170-10_-_instrumento_de_vinculacion.pdf

INTERNAL CAPACITIES NEEDED AND THE ROLE OF PARTNERS

Similarly to setting tariffs, further adjustments and updates require a range of financial, planning, and technical regulatory abilities. Regulators usually benefit from capacity building through training, supported by related sector ministries, the private sector, research institutions, and facilitated by development partners. Other regulatory best practices may be of use, from technical exchanges. Regulators' staff must be trained on different tariff modalities, and financial and social implications, to be able to conduct regular adjustments.