

## TS2C: Verify efficiency of operators

| REGULATORY FUNCTION: TARIFF SETTING                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                        | TS2C                     |
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| <b>OBJECTIVE TS2</b><br>Compliance with approved tariffs and performance is monitored through financial and operational information received from operators                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <b>ACTION CARD TS2C</b><br><h1>VERIFY THE EFFICIENCY OF OPERATORS</h1>                                                                                                                                                                                 |                          |
| <b>COST:</b> High <b>FREQUENCY:</b> Regular<br><b>TARGET GROUPS:</b> Regulators, service operators, individual and institutional consumers                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                        |                          |
| <b>DESCRIPTION</b><br>As tariff collection may encounter mistakes, regulators regularly and randomly inspect tariff accuracy using different indicators. In accordance, regulators verify other economic efficiency indicators and ensure that the approved tariffs correspond to actual operator expenditures. This action is commonly performed through impartial inspection procedures, with the main objective being to correct any kind of misconduct in a timely manner. All licensed operators, being subject to these inspections, are obliged to cooperate and provide all required information related to their compliance with the approved tariffs. Failure to do so, or frequent tariff overcharge, may affect the issue of future operator licences. |                                                                                                                                                                                                                                                        |                          |
| <b>EXPECTED OUTCOMES</b> <ul style="list-style-type: none"> <li>• Only adequate tariffs are validated, while those in excess are reimbursed to consumers.</li> <li>• Non-compliance with indicators is used by regulators when issuing operating licences.</li> <li>• Consumers are only charged for services that are delivered.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                        |                          |
| <b>EXAMPLE 1: TANZANIA</b><br>In <b>Tanzania</b> , some financial indicators that the Energy and Water Utilities Regulatory Authority (EWURA) uses to assess water supply operators are as follows.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                        |                          |
| <b>INDICATOR</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>DEFINITION</b>                                                                                                                                                                                                                                      | <b>UNIT</b>              |
| <b>Administration costs per m<sup>3</sup> of water produced</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Total administration costs (TZS) / total amount of water produced (m <sup>3</sup> ).                                                                                                                                                                   | TZS/m <sup>3</sup>       |
| <b>Energy consumption</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Energy consumption during the assessment period (kWh) / total amount of water produced (m <sup>3</sup> ).                                                                                                                                              | kWh/m <sup>3</sup>       |
| <b>Operating ratio</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Ratio of operating costs to operating revenues. Operational costs include all expenses together with depreciation and interests costs (but excluding debt service payments). Sound national management requires that this ratio should be less than 1. | Ratio                    |
| <b>Personnel expenditure per m<sup>3</sup> of water produced</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | The ratio of total personnel expenditure (TZS) to the total amount of water produced (m <sup>3</sup> )                                                                                                                                                 | TZS/m <sup>3</sup>       |
| <b>Personnel expenditure as a percentage of current collection from water and sewerage bills</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Total personnel expenditure in (TZS) expressed as a percentage of total collection from current water and sewerage bills plus collections from other water and sewerage related services (excluding grants and subsidies).                             | %                        |
| <b>Staff/1000 water and sewerage connections</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | This indicator measures staffing level and is calculated as the ratio of total personnel to total number of water and sewerage connections. Best practice is below 5                                                                                   | Staff / 1000 connections |
| <b>Working ratio</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | This is the ratio of operational expenses / operational revenue. Operational expenses do not include depreciation, interest and debt service. Sound national management requires that this ratio should be well below 1.                               | Ratio                    |

### **EXAMPLE 2: ARGENTINA**

In Argentina, Law 26.221 stipulates that the concession is economically and financially balanced if tariffs for services provided allow for the recovery of all associated costs, including operational, investment, tax and financial costs, if applicable. Accordingly, and with the aim of detecting errors incurred, a financial sustainability indicator was adopted in 2014 on the basis of three ratios: 1) operating revenue vs. operating expenses; 2) operating revenue vs. current expenses (operating and other expenses); and 3) current revenue (operating revenue plus transfers and property income) vs. current expenses. The result demonstrated that the tariff didn't allow for the economic and financial balance stipulated in the regulation.

### **EXAMPLE 3: MEXICO**

In the Mexican State of Veracruz de Ignacio de la Llave, the Water Law stipulates that both the regulatory authority and operators shall establish service tariffs in line with methodologies that establish parameters for calculating the break-even price, which should be sufficient to cover costs derived from operations, maintenance and systems management; rehabilitation and improvement of existing infrastructure; amortization of investments made; financial expenses from liabilities; and investments needed for infrastructure expansion. Within this framework, the Methodological Guide for Tariff Calculations in Drinking Water, Sewerage and Sanitation Service Provision seeks to match the total expenses incurred within a certain time by the Operator to the revenue collected through a tariff applied as payment for its services within the same period, generally of one year.

### **LINKS**

Tanzania: EWURA performance indicators: <http://www.ewura.go.tz/wp-content/uploads/2018/06/EWURA-REGIONAL-WATER-UTILITIES-PERFORMANCE-REPORT-2016-17.pdf>

Argentina: Tri-Party Agreement between the Federal Planning, Public Investment and Services Ministry, the Province of Buenos Aires and the Government of the Autonomous City of Buenos Aires and the document 'The New AySA Management: Financial Sustainability, Micro-metering, Subsidies and Citizen Engagement'

<https://www.argentina.gob.ar/normativa/nacional/ley-26221-125875/texto>

[https://www.argentina.gob.ar/sites/default/files/doc\\_4\\_la\\_nueva\\_gestion\\_de\\_aysa.pdf](https://www.argentina.gob.ar/sites/default/files/doc_4_la_nueva_gestion_de_aysa.pdf)

Mexico: Methodological Guide for Tariff Calculations in Drinking Water, Sewerage and Sanitation Service Provision

[https://agua.org.mx/wp-content/uploads/2010/10/7257\\_guia\\_metodologica\\_calculo\\_tarifas.pdf](https://agua.org.mx/wp-content/uploads/2010/10/7257_guia_metodologica_calculo_tarifas.pdf);

<https://faolex.fao.org/docs/pdf/mex188368.pdf>

### **INTERNAL CAPACITIES NEEDED AND THE ROLE OF PARTNERS**

A range of administrative, legal, and inspection skills necessary to complete this action obliges regulators to build their internal capacity through training, often seeking support from other national institutions or development partners. Judiciary institutions can for instance, use their expertise in developing inspection methodology. Development partners can support regulators through training, and the establishment of indicators and implementation procedures. Regulators' staff must be trained on how to proceed with the checks, which indicators to analyse, and how to assess misconduct and calculate respective reimbursements.