

TS1A: Define criteria, rules and processes for tariff setting, tariff structure, approval, and service invoicing

REGULATORY FUNCTION: TARIFF SETTING		TS1A
OBJECTIVE TS1 Tariff system, relevant procedures and responsibilities are validated	ACTION CARD TS1A DEFINE CRITERIA, RULES AND PROCESSES FOR TARIFF SETTING, TARIFF STRUCTURE, APPROVAL AND SERVICE INVOICING	
COST: High FREQUENCY: One time TARGET GROUPS: Regulators, relevant authorities and policy makers, parliament, consumer associations		
DESCRIPTION Depending on the regulated price modality, tariffs could be either set or approved by regulators. Since both cases require transparency, regulators must establish clear criteria and procedure for price setting. These guidelines usually rely on basic regulatory principles. For example, they are often based on the principles of recovery of investment and operating costs, efficiency, equity, sustainable use of water resources and infrastructure, consumer protection interests and their economic accessibility. Setting a price for water and sanitation as services of public interest, imply the broad participation of all relevant stakeholders. Tariff guidelines could for instance, impose mandatory dialogue with consumers and validation by a national parliament, making the tariffs enforceable.		
EXPECTED OUTCOMES <ul style="list-style-type: none"> • There is a transparency and predictability of tariffs, where 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 the delivered services. 		
EXAMPLE 1: KENYA In Kenya , the Water Services Regulatory Board (WASREB) is required to evaluate and recommend water and sewerage tariffs to the water service providers at county level, and approve the imposition of such tariffs in line with consumer protection standards and the interests of other stakeholder. There are three kinds of tariff (type I, II and III) according to the type of cost that each cover. Type I covers operational and maintenance costs, with some basic administrative ones. Type II includes the above plus the repayment of existing debts. Finally, type III tariffs include all the costs of other tariffs with the addition of the costs of investments and depreciation (full cost recovery). This tariff structure ensures access to all, with differentiated prices for different socio-economic groups.		

EXAMPLE 2: PERU

In Peru, Legislative Decree 1280/2016 and Emergency Decree 11/2020 stipulate that the economic regulation of water and sanitation services aims to guarantee the availability and efficient and sustainable management of such services, and of the products and services that derive from such services, when there is no competition in their provision. Economic regulation is based on the principles of economic efficiency, financial viability, social equity, environmental sustainability, risk prevention, simplicity, transparency, non-discrimination and the cost-benefit ratio. The economic regulation of these services is the exclusive and exclusionary prerogative of the National Superintendency of Sanitation Services (SUNASS) on a national level, and includes, among other faculties, tariff-setting, review and readjustment, the establishment of the tariff structure and access charges, and the deregulation process. SUNASS determines the economic costs of service provision on the basis of its assessment of optimized master plans drawn up by providers with the aim of providing universal coverage, its assessment of municipal management unit service provision plans, of specialized operators, and of the provisions set forth in public-private partnership contracts.

EXAMPLE 3: BOLIVIA

The tariff system stipulated in Law 2066 is based on the principles of economic efficiency, neutrality, solidarity, redistribution, financial sufficiency, simplicity and transparency, so that tariffs don't transfer the costs of inefficient management to users or allow the operator to implement anti-competitive practices; on the principle that each user should have the same tariff treatment as other users in the same tariff category; on the principle that the tariff structure redistribute costs according to user ability to pay, and thereby recovering costs and expenses related to operations, expansion, replacement and maintenance, as well as return on shareholder equity; on the principle that tariff formulas be easy to understand, apply and monitor; and that the tariff system be explicit and fully available to the public.

The principles governing rates, tariffs and fees are:

- a) Total recovery of operational and maintenance costs.
- b) Recovery of repair costs ensuring service sustainability.
- c) Guarantee of the lowest price to users, while ensuring service safety and continuity.
- d) Neutrality, simplicity and transparency, as set out in the previous article.
- e) Return on investments made with loans, without remunerating capital obtained through donations, grants or non-refundable contributions.

The tariff is approved by the Superintendency of Basic Sanitation on the basis of the technically-grounded opinion of the Municipal Government, which shall, in turn, carry out consultations through Popular Participation processes.

LINKS

Kenya: Guidelines on tariffs in Kenya: <https://wasreb.go.ke/downloads/Tariff%20guidelines.pdf>

Peru: Tariff system in Peru:

<https://www.sunass.gob.pe/nuestras-funciones/normar/politica-regulatoria/>

Bolivia: Bolivian tariff system:

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

INTERNAL CAPACITIES NEEDED AND THE ROLE OF PARTNERS

Setting tariffs has proved to be one of the most complex and delicate regulatory powers. In consequence, it is necessary for regulators to perform it with high levels of skills, which include financial, planning, hydrological, and with the vision of sustainable development. A solid understanding can be achieved through training on different tariff models, and this will help regulators to better align public needs with their sector visions. Since this regulatory power attracts by far the most political attention, it is advisable to conceive tariff guidelines with the support of a neutral actor. Both public and private sector actors should contribute their inputs to the process through facilitation by an impartial external partner.