

WORKSHOP ON «SMART GOVERNANCE & REGULATION OF WATER & SANITATION SERVICES»

***Paving the way for a European working group
on governance and regulation
of water & sanitation services***

**Proceedings of the seminar
Florence, 7th and 8th February 2013**

The French national agency for water and aquatic environments (Onema)

Established in 2007, Onema is a national agency active in the field of public environmental service. It organises and produces high-level science and technology advice to assist in formulating, implementing and evaluating public water policy. Its mission is to contribute to the overall and sustainable management of water resources and aquatic ecosystems, with a view to restoring water quality and reaching good chemical and ecological status by 2015, the goal set by the European Water framework directive.

The Economics of Public Private Partnerships Chair

The Economics of Public Private Partnerships Chair is a research group that gathers academics and practitioners from various institutions. Its aim is to promote the development of a network of researchers and decision-makers interested in issues related to public services reforms. For two decades, the procurement of public services (like water supply, public transportation, waste disposal, and beyond, education, research and health, etc.) has been engaged in a process of intensive changes, both in developed and less-developed countries. Both at the local and national levels, public authorities have been willing to introduce new regulatory regimes and modify the procurement procedures to allow private sector participation and improve performances. At the same time, it has also generated a new stream of both theoretical and empirical research, which redefines our understanding of the limits between the public and the private spheres.

The Florence School of Regulation

The Florence School of Regulation (FSR) works closely with the European Commission. The FSR's objective is to expose the European dimension to regulatory topics and to contribute to the safeguarding of the common good of Europe by ensuring high-level and independent debate and research on economically and socially sound regulation.



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on governance and regulation of
water & sanitation services

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Context

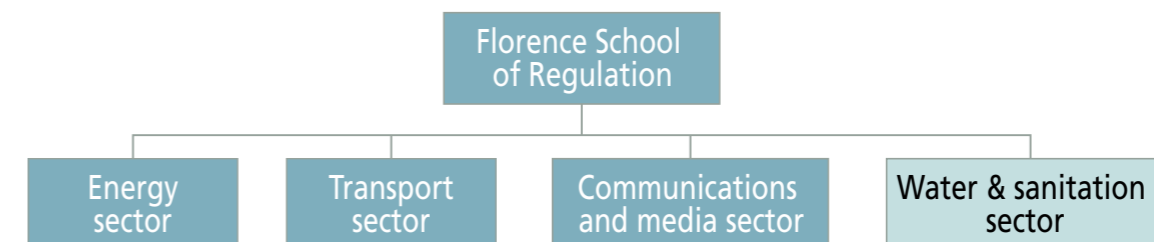
The Florence School of Regulation (FSR) is a partnership between the European University Institute / Robert Schuman Centre for Advanced Studies, the Council of the European Energy Regulators and the Independent Regulators Group, and it works closely with the European Commission.

Its objectives are to:

- organize policy events dealing with key regulatory issues;
- provide state-of-the-art training for practitioners;
- produce analytical and empirical research in the field of regulation;
- promote networking through documents and ideas exchanges.

It is a European forum dedicated to economic regulation where policy and business decision-makers, regulators, regulated companies and academics from different countries who are involved in regulation can meet, allowing the development of cross-country issues as well as the comparison of national experiences and country specific regulatory problems.

The Florence School of Regulation presently focuses on regulation issues for the following three sectors: energy, transport, communications and media. It is proposed to expand this scope to the water & sanitation sector.



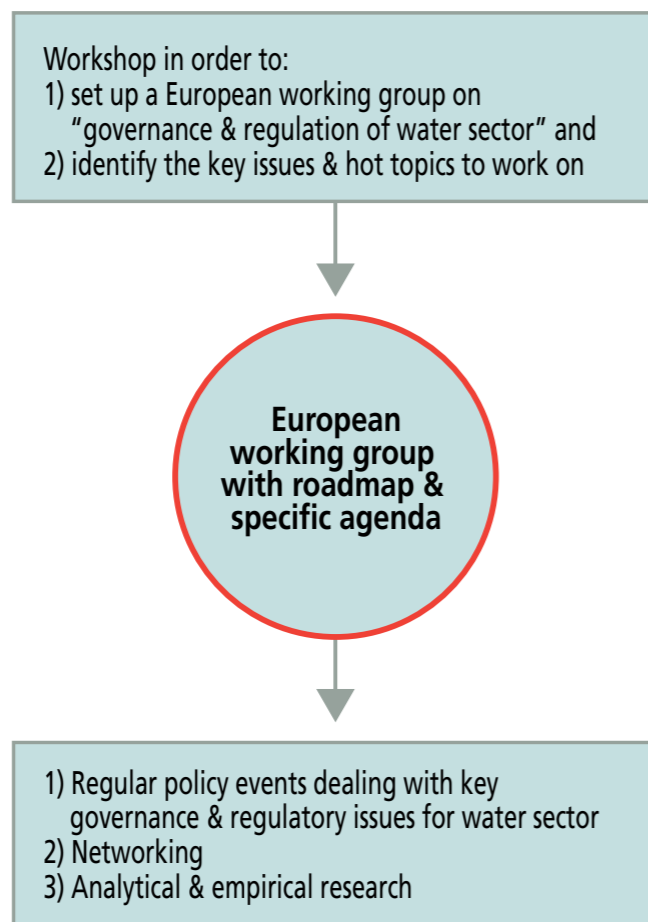
In order to create a new area on water and sanitation, the FSR is supported by the «Economics of Public Private Partnerships» Chair which is part of the Sorbonne Graduate Business School from Paris. It is a research group which gathers academics and practitioners from various institutions. Its aim is to promote the development of a network of researchers and decision-makers interested in issues related to governance and regulation of public services.

Objectives

The FSR, in association with the «Economics of Public Private Partnerships» Chair, is willing to set up a European working group focusing on the issues of governance & regulation for water and sanitation services.

In order to launch this project, a first workshop on “smart governance & regulation of water & sanitation services” was held in February 2013 aiming at:

- identifying the main topics and key issues which will be the core subject of the working group on governance and regulation of water and sanitation services;
- identifying and gathering the key persons, competence and knowledge from across Europe on “governance and regulation of water & sanitation services” (regulators, academics, practitioners, policy reviewers, decision-makers...).



Outcomes

By the end of the seminar, thanks to the different presentations and discussions which followed, some hot topics on governance & regulation in the water sector were identified. These key issues can be considered as a first roadmap for the European working group.

The chart below sums up the main outcomes and the roadmap deriving from the seminar:

| Competition | Regulation | Governance | Tariffs |
|---|--|---|---|
| How to generate competition? | Investigate the influence of the environment surrounding the regulator. The effectiveness of regulators depends upon the political, economic and social environment in which they operate. | What optimal scale for water & sanitation services operation? What is the efficient scope to operate water & sanitation services? | Private operators revenues depending on volumes sold: how to change this incentive? |
| Incentive to invest? | What governance works well for regulation? Principles of good internal governance for regulators (cf. OECD work). | Local public services are organised through multi-utilities at multi-levels (from municipalities to local public bodies). Given this context, what governance would be the most relevant and efficient in the water sector? | What objectives for tariff setting: "polluter pays principle" compliance, cost recovery, internalisation of externalities, performance incentive? |
| Transparency & accountability issues | Incentive regulation - what water price cap for the water industry. | | Normalisation & standardisation of tariffs to allow easy international comparisons |
| Exploring & addressing lock-in issues during renewal stages | Long term reflexion on technical, social, environmental and economic sustainability of infrastructures. | | Addressing "access to water" issues through tariff setting? |
| | National regulator along with contract regulation? | | |
| | Regulation through benchmark? | | |

It was underlined that it is very important for the sustainability of the project that:

- all data are being made available to all researchers;
- all works and results are being widely shared;
- links between universities and regulators across Europe are reinforced;
- networking should be a crucial element of the project as it is the occasion for informal regular events and meetings in order to facilitate experience sharing, best practices promotion.

Contents

| | |
|--|------|
| Governance and regulation as drivers for efficiency in the water sector | p.9 |
| Firms' governance and efficiency in the water service provision: empirical evidence from the Italian case | p.10 |
| Regulation and governance through performance in the service management contract | p.12 |
| What determines efficiency? An analysis of the Italian water sector | p.14 |
| Assessing & improving performance of water services | p.15 |
| IBnet project: international benchmarking network for water and sanitation utilities | p.16 |
| European Benchmark Co-operation: learning from international best practices | p.18 |
| From performance indicators to high quality label for services | p.20 |
| Competition for water services in Europe | p.23 |
| Water under the bridge: city size, bargaining power, prices and franchise renewals in the provision of water in France | p.24 |
| Outcomes of private sector involvement in water services: theoretical foundations and empirical evidence from Spain | p.25 |
| Governance and regulation practices in Europe | p.27 |
| General review of the Austrian water sector and its regulation | p.28 |
| Regulatory models for water & sanitation services in Europe | p.29 |
| Regulatory model towards sustainable utilities | p.30 |
| Upcoming challenges in the water sector | p.31 |
| Efficiency and equity in two parts tariffs: the case of residential water rates | p.32 |
| Incentive investment policy from the regulator in Italian sector | p.33 |
| Detailed programme | p.34 |

Session 1:

**Governance and regulation
as drivers for efficiency
in the water sector**

**Firms' governance and efficiency in the water service provision:
empirical evidence from the Italian case**

**Regulation and governance through performance
in the service management contract**

**What determines efficiency?
An analysis of the Italian water sector**

Firms' governance and efficiency in the water service provision: empirical evidence from the Italian case

Authors: **Andrea Bordin** – U. of Venice,
Mario Padula – U. of Venice
 and **Paola Valbonesi** – U. of Padova

Abstract

Within the long-standing debate on governance and efficiency in local public services, this paper investigates cost and tariffs of a sample of Italian water utilities, providing new results on the effect of governance, investments and technology. The Italian water sector represents an interesting setting to empirically explore governance and efficiency issues: in such a context, indeed, there is large variation within local area both for providers' governance and service characteristics.

The management of the water system has been completely re-designed by the National Law 1966/36 (the so called Legge Galli), which has set "integration" in the service provision at two levels:

- vertical, that is, in the supply of services such as domestic water, fetching, transporting and distributing, sewage and water treatment/purification;
- horizontal, that is, in the provision of the above services in a defined local area called Optimal Territorial Basin (OPT).

By the way of vertical integration the legislator wanted to reach scope economies, while through horizontal integration, scale economies.

In terms of regulatory design, the Legge Galli (and further national laws) assigned:

- at local level, to the OPT Authority, the role of maintaining the property of infrastructures, contracting out the service to a single operator, designing regulation, programming and monitoring the integrated service;
- at national level, to a national authority, the role of protecting consumers' general interests, pursuing efficiency and productivity, monitoring the tariff's design;
- at intermediate level, to Basin and Regions Authorities, the role of coordinating policies in terms of environmental aims.

The Legge Gally also introduced a new tariff system based on a full-cost recovery approach (i.e., investment included) and on a price-cap mechanism. The same law takes a lot of time to be fully implemented at local level. Our dataset covers the period 2005-2010, capturing in every OPT the effect of the Legge Galli's implementation.

We assembled a new dataset on Italian water service (2005-2010) collecting data on technical characteristics of local provisions, on 50 operators' budgets, and information about local regulators.

Considering productive efficiency, we built five different indicators: Average Cost/Volume of water sold; Average Cost/ Length of conducts; Average Cost/ Inhabitants; Average Cost/ Employees; Cost of Personnel/ Production Cost. As for governance, we distinguished among "in house", Joint stock companies, IPPP and private suppliers.

The evidence documents a wide heterogeneity in the chosen efficiency indicators. Our preliminary results suggest that systematic differences in efficiency can be related not only to technological differences but also to differences in the type of governance between operators.

Finally, we aim to focus on the effects of efficiency indicators, governance and planned investments on local tariffs to investigate the main driver(s) of their increases.



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Regulation and governance through performance in the service management contract

Author: **Agathe Cohen** – SEDIF

Abstract

The *Syndicat des Eaux d'Ile-de-France (SEDIF)* produces and delivers drinking water to 149 municipalities in the outskirts of Paris (approximately 800.000 m³ of water daily). After a four-year process, a new management contract came into effect on the 1st of January 2011. This was the opportunity to reinforce, enrich and structure the management system, developed in 2002, to assess service quality and to promote compliance with ISO 24 512.

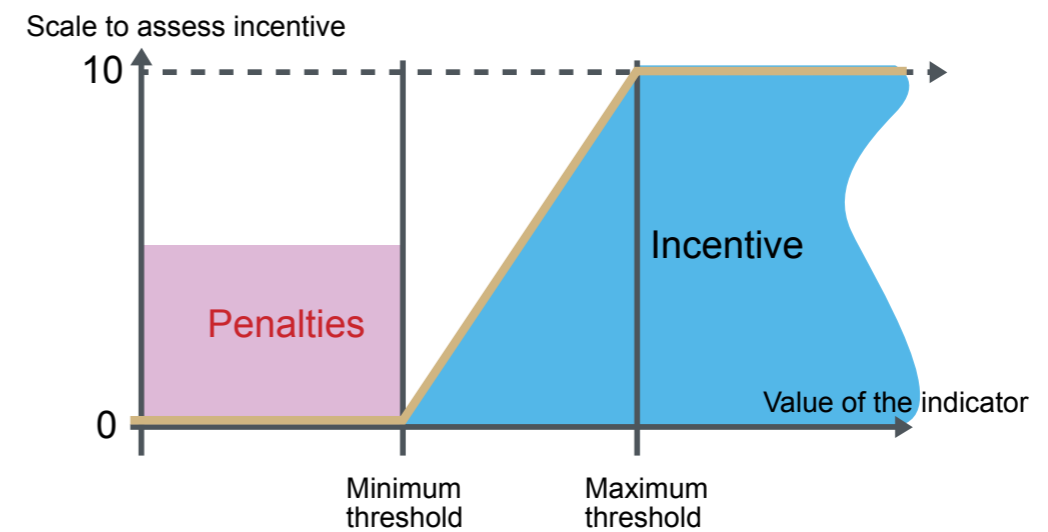
The operator's remuneration paid by SEDIF is based upon a set of technical and financial performance targets.

Financial performance is measured through the operator's economic result (operating balance) and through its capacity to reduce operational expenditures.

Technical performance, for which the operator is either paid or penalized as an incentive to maintain a high level of service quality, is assessed using a set of 136 indicators broken down into four categories: user services (17 indicators), technical management (43 indicators), sustainable development (24 indicators) and water quality (52 indicators).

| | Indicators leading to possible penalties | Indicators with a positive impact on the remuneration |
|-----------------------|--|---|
| Customer service | 17 | 16 |
| Technical performance | 43 | 18 |
| Financial performance | 24 | 20 |
| Water quality | 52 | 0 |

In general, a target value is assigned to each indicator. When the operator reaches the target value, it gets the highest incentive remuneration. A minimal threshold is also set, below which the operator has to pay penalties.



The operator compensation scheme also allows for the creation of a complete scoreboard intended to better control and steer the technical and financial performance of operations, and to compensate for good performance in a virtuous manner without extra charges for users.

The operator's remuneration is composed of:

- a fixed share which is equal to 2% of yearly retail sales and wholesale water revenue;
- a variable share based on the operating account balance. This variable share is broken down into three parts:
 - 40% based on reaching quality targets (technical performance);
 - 40% based on the operator's control over operating costs (financial performance);
 - 20% if balance is positive (financial performance).

If the operating account balance is negative, the remuneration only equals the fixed share. Moreover, there is a ceiling value for operator's remuneration which is set at 9% of all water sales.

What determines efficiency? An analysis of the Italian Water Sector

Authors: **Monica Bonacina** – Istituto di Economia e Politica dell' Energia e dell'Ambiente, Università Bocconi, Milano,
Anna Creti – Ecole Polytechnique, Paris & EconomiX, U. Paris Ouest and
Federico Pontoni – U. Bocconi, Milano

Abstract

The Italian water sector has encompassed major changes since mid-90s when law 96/94 has entered into force. Next to private participation, integration of services and growth in production scales, the reform was intended to revolutionize the traditional financial model almost fully based on public funds. Although citizens, politicians and experts on water services have been debating for a long time on the impact of the reform on the industry, as well as on the fairness of a tariff system inspired by the concept of full cost recovery, we are still on a state of uncertainty. The final purpose of this paper is to provide regulators with guidelines that could be used to revise water tariffs in a way that may be cost-efficient, sustainable and fair to the most. According to our analyses, which rely on firm-specific X-inefficiency scores, despite a satisfactory mean level of performance, in the period under investigation, efficiency improvements have been limited. Moreover, our results demonstrate that both the ownership structure and politics do have an impact on the efficiency of the firms: in particular, public shareholding and center-right local governments negatively affects firms' performances. To this respect, we think that a more effective regulation would also have the side effect of loosening the ties between politicians and managers.



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Session 2:

Assessing & improving performance of water services

**IBnet project: international benchmarking network
for water and sanitation utilities**

**European Benchmark Co-operation:
learning from international best practices**

**From performance indicators to high quality label
for services**

IBnet project: international benchmarking network for water and sanitation utilities

Author: Alexander Danilenko – World Bank

Abstract

The purpose of benchmarking is to search and identify “best practice”. Collection of data is not benchmarking, but is a necessary step to conduct benchmarking. In many countries, the lack of data prevents benchmarking as the data to do so is either unavailable or of insufficient quality to ensure any meaningful comparison of data.

In 1996, in view of the importance of the availability of comparable data on utility performance, the World Bank started an initiative that would enable water and sanitation professionals with an interest in utility performance to compare data by working on reducing the key barriers to benchmarking through (i) agreement on a standard set of indicators; (ii) the use of a standard set of definitions; and (iii) a route to sharing results. The first product of the Initiative was the preparation of a Benchmarking IBNET Start-up Kit that can be used by practitioners to start the benchmarking process.

Inter-utility performance comparison is needed in the water and sanitation sector, because the sector offers limited scope for direct competition. Firms operating in competitive markets are under constant pressure to out perform each other. Water utilities are often sheltered from this pressure, and it frequently shows: some utilities are on a sustained improvement track, but many others keep falling further behind best practice. This matters, because a well-run water utility is essential to people’s lives. Only the most efficient, financially viable utilities are able to respond to urban growth, connect the poor, and improve wastewater disposal practices.

The objective of IBNET is to support access to comparative information that will help to promote best practice among water supply and sanitation providers worldwide and eventually will provide consumers with access to high quality, and affordable water supply and sanitation services.

The International Benchmarking Network for Water and Sanitation Utilities (IBNET) is an initiative to encourage water and sanitation utilities to compile and share a set of core cost and performance indicators, and thus meet the needs of the various stakeholders. It sets forth a common set of data definitions; a minimum set of core indicators (see table 1), and provides software to allow easy data collection and calculation of the indicators, while it also provides resources to analyze data and present results. Sharing of results is critical to successful performance comparisons (benchmarking).

Table 1: Core Water Supply and Wastewater Indicator Categories

| | |
|----------------------------------|--------------------------|
| Service coverage | Quality of service |
| Water consumption and production | Billing and collections |
| Non revenue water | Financial performance |
| Metering practices | Assets |
| Pipe network performance | Affordability of service |
| Cost and staffing | Process indicators |

The set will not, and is not intended to fulfil the needs of all the stakeholders in all water and sanitation utilities. Most utilities will, however, benefit from knowing how they perform in each of these core ratios, how their ratios are moving over time, and how they compare with their peers—nationally and internationally.

A simple data capture system is provided on the IBnet website to help partners compile data and calculate the IBNET indicators. Users enter their data in the relevant fields and the indicators are calculated automatically. The system provides a number of internal data consistency checks. The core indicator set requires the collection of the following categories of data (see table 2).

Table 2: Data Categories

| | |
|----------------------------------|---------------------------|
| Country information | Sewerage services |
| Utility/service area information | Financial information |
| Water services | Tariff information |
| Investment information | Affordability information |
| Institutional development data | Poverty indicators |
| Cost and staffing | Process indicators |



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European Benchmark Co-operation: learning from international best practices

Author: Peter Dane – Association of Dutch Water Companies

Abstract

The European Benchmarking Co-operation (EBC) is a not-for-profit partnership of four European national water associations: DANVA (DK), FIWA (FIN), Norsk Vann (N) and Vewin (NL). In 2012, EBC organised its sixth international benchmarking exercise for water & wastewater services. 50 utilities from 19 different countries joined the exercise, 10% more than the year before.

The mission of EBC is to provide a learning platform for all interested European water utilities. Since 2007, EBC annually organises benchmarking exercises.

Participation is on a voluntary basis.

EBC offers a learning-orientated utility improvement programme. It consists of two consecutive steps: performance assessment and performance improvement. To serve both large and small utilities, experienced and less experienced ones, EBC has developed a Performance Assessment Model with three different levels of detail: basic, standard and advanced.

Whereas the basic level investigates elementary statistics and –performance indicators, the advanced level offers quite detailed indicators for deeper analysis. Participants can choose the benchmarking level that matches their aspirations and availability of internal information.

Five key performance areas are analysed to provide a balanced view on utilities' performance:

- water quality;
- reliability;
- service quality;
- sustainability;
- finance & Efficiency.

To secure the high-quality standard of the programme, the EBC benchmarking team and the participating utilities closely work together on data collection, data quality control and data reporting. In the performance improvement step, utilities meet their peers in the annual workshop where they exchange knowledge and best practices in technology, management and operations. Last but not least, EBC encourages utilities to prepare Performance Improvement Plans for the implementation of improvement actions.

The EBC programme is aligned with the International Water Association (IWA) & American Water Works Association (AWWA) benchmarking framework and applies the IWA Performance Indicator System. This provides a standard for exchanges with other initiatives.

The EBC benchmarking programme is open to all interested water & wastewater utilities and is growing steadily. In 2012, an EBRD-funded, parallel benchmarking programme started in Romania. In the same year, EBC started supporting the Kenyan national water association with benchmarking activities in order to contribute to the United Nations Millennium Development Goals. A next development will be to move the present activities into an independent EBC Foundation to better focus on the core business: improving water services.



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From performance indicators to high quality label for services

Author: **Maria Salvetti** – Onema

Abstract

The goal of the newly created Aquaplust service label is to reward high quality and performance water & sanitation services.

High quality and performance are assessed through 3 main lines:

- the quality of the customer service: information, social access to water, involvement of users...
- the overall quality of the service management: financial management, human resources management, infrastructure performance and management...
- the environmental quality of the service: water preservation, environmental actions, carbon footprint...

| Main lines | Share in total assessment | Sub-criteria |
|---------------------------------------|---------------------------|---|
| Quality of customer service | 33% | 18 for drinking water 17 for collective sanitation |
| Overall quality of service management | 33% | 19 for drinking water 20 for collective sanitation |
| Environmental quality | 33% | 7 for drinking water 11 for collective sanitation |

After a thorough examination of the application file by the Aquaplust committee, the Aquaplust service label is granted to the public body in charge of the service for a period of 5 years. It is important to note that the information comprised in the application can be checked on site and will be checked once again within this period of 5 years.

The creation of this label followed a three-step process:

- 1 - it was firstly decided to use the 29 existing regulatory performance indicators;
- 2 - it was then agreed to supplement these performance indicators with additional indicators to better characterise the overall quality & performance of the service;
- 3 - finally, some targets were set for each of these indicators.

The additional criteria have been elaborated by a working group gathering the French national Agency for water (ONEMA), the French mayors association (AMF), representatives from the environment Ministry (DEB), the national federation of local public bodies with public & private management contract (FNCCR), the professional federation of water companies (FP2E), the international office for water (OIEau), some local public bodies and the union of water industries (UIE).

The Aquaplust service label is to be launched in 2013. Hence the first applicants should be labelled in 2014.



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Session 3:

Competition for water services in Europe

Water under the bridge: city size, bargaining power, prices and franchise renewals in the provision of water in France

Outcomes of private sector involvement in water services: theoretical foundations and empirical evidence from Spain

Water under the bridge: city size, bargaining power, prices and franchise renewals in the provision of water in France

Authors: **Eshien Chong** – Sorbonne Business School,
Stéphane Saussier – Sorbonne Business School
and **Brian Silverman** – U. of Toronto

Abstract

Since Williamson's 1976 study of franchise bidding for natural monopolies, there has been extensive debate concerning the degree to which transaction cost problems actually afflict government franchising in practice. We contribute to this debate by proposing that municipalities vary in their ability to discipline franchisees, and that this heterogeneous ability affects franchise renewal patterns and the quasi-rents that franchisees can extract. We study the provision of municipal water services in France, a setting that is characterized by a mix of direct public provision and franchising of private providers. We find that municipalities with fewer than 10,000 residents pay a significant price premium for water provided by private franchisees as compared to publicly provided water, ceteris paribus; in contrast, larger municipalities do not pay a premium. We also find that larger municipalities are significantly less likely to renew incumbent franchisee that charges an «excessive» price of water, while small municipalities' renewal patterns are not influenced by franchisees' excessive pricing. We interpret the results as evidence that although large municipalities are able to discipline franchisees and thus prevent extraction of quasi-rents, small municipalities are less able to do so.



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Outcomes of private sector involvement in water services: theoretical foundations and empirical evidence from Spain

Authors: **Maria A. García Valinas** – U. of Oviedo,
Francisco Gonzalez Gomez – U. de Granada,
Nicolas Melissas – Instituto Tecnológico Autónomo de México (ITAM)
and **Javier Suarez Pandiello** – U. de Oviedo

Abstract

Water services management has become a key issue as far as urban water supply is considered a service of general interest in the European Union (EU, 2001). In this context, public-private partnerships (PPP) have emerged as a usual way of local water services provision. This paper contributes to analyze the effects and consequences of PPP, both from a theoretical and empirical point of view. First of all, we develop a theoretical framework to show the effects of water services contracting-out on water prices. Second, we test the model using a sample of Spanish municipalities recently privatized. Findings support that, in a context of limited resources, local governments are using public-private partnerships in order to get additional fundings to reduce their indebtedness levels. Moreover, the fact of setting a high reservation price as a way to guarantee a minimum amount of resources has had consequences in terms of water price increases after water services privatization.



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Session 4:

Governance and regulation practices in Europe

General review of the Austrian water sector and its regulation

Regulatory models for water & sanitation services in Europe

General review of the Austrian water sector and its regulation

Author: **Michael Klein** – Sorbonne Business School

Abstract

This paper seeks to shed light on the provision of water services - i.e. water distribution and wastewater disposal - in Austria. More specifically, the underlying work addresses the central issues related to water provision: the legal framework, the prevailing organizational modes of provision, financing as well as monitoring and regulation. The main task of the paper is to sketch the evolution of the Austrian water sector over the last 10 to 15 years and identify the main characteristics along with critical governance and regulation questions.

Regarding the most important trends in the Austrian water sector, it appears that the financing system has undergone the most severe changes, which is indicated by the strong (price-led) increase in revenues from fees and the public investment activities. It is still true however, that cost recovery is not achieved in all municipalities despite the increase in tariffs and the generous grant system supporting investment. Another noticeable long term development is the rise in accessibility to public services, which is now around 90% for both water and sewage.

Water demand, quality and to a large degree also the organizational forms - also with respect to the organizational type - have remained rather stable over the last decades. Despite some tendency to externalize the services into corporatized public enterprises, only few Austrian municipalities have chosen private partners to provide water services. To conclude, there are no indications that the provision of water related services in Austria will be subject to major changes in the near future - neither with respect to European regulations nor the economic crisis.



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Regulatory models for water & sanitation services in Europe

Author: **Guillem Canneva** – AgroParisTech

Abstract

Water and sanitation services face similar regulation issues. On the one hand, they are recognized as natural monopolies and on the other hand they are essential and generalized services, at least in developed countries. The conjunction of these two characteristics may lead to the extraction of monopolies rents and high water prices (operator and government opportunism vs users), or, on the contrary, to very low prices, associated with the expropriation of private investors or the under-financing of the service (authority and user opportunism vs operator). In this context, the regulation is meant to set a trade off between efficiency, service quality and sustainability.

Nevertheless, if we consider the regulatory models in use in Europe, we note a great diversity, sometimes even within a country. We draw a classification of European regulatory models according to 3 key characteristics: the relation between the authority and the operator, the status (public or private) of the operator and the means used to reduce information asymmetries. Thus, we identify various models: self-regulation, contractual regulation, agency regulation, sunshine regulation, sometimes with variants.

The diversity may have several origins: local issues related to water (scarcity for instance), historical construction with successive layers or interdependency with features of the institutional framework. These features can be characterized by the "size" of the stakeholders (chiefly authority and operator), the integration of activities, the cost-recovery level and the private participation. The institutional context influences the effectiveness of the regulation model.

Despite the heterogeneity of regulation models, we can identify converging trends in the European context. Firstly, the EU regulation pressure, among other driving forces, draws into increasing centralization for reporting purposes. Secondly, corporatization and contracting develop in public management models to increase accountability and flexibility. Thirdly, the transversal managerial tools such as performance indicators and performance assessment methods spread.

Regulatory model towards sustainable utilities

Author: Jaime Baptista

and **David Alves** – The Water and Waste Services Regulation Authority (ERSAR)

Abstract

The water services are usually natural monopolies of local or regional basis, which predictably affects the competition in the sector. Due to this fact, consumers can't choose the operator that they prefer or the price/quality relationship that they see as more convenient. Therefore, regulation has as main goal the protection of the interests of these services' consumers, by promoting the quality of the service provided by the operators and by ensuring the moderation of the tariffs charged by them.

However, this should be done considering the economic viability and the legitimate interests of the operators, while ensuring service sustainability in the medium and long terms. In the Portuguese case, ERSAR also aims to promote other economic activities within the water sector through the strengthening of the economic tissue, as well as the contribution of these services to environmental sustainability.

Perceived as a modern tool in State intervention, the strengthening of regulation is regarded as a fundamental step for the steady growth of this sector, considering Portugal's current stage of development. The regulation plays also a major role in the Portuguese transition from a phase of high infra-structural investments to a period of stabilization and high standards of quality of service, which require an effort towards increasing efficiency and effectiveness in the water services. In this context, the role of the regulation authority is to prompt operators to improve their performance and to induce them to share the benefits of that increased efficiency with the consumers.

ERSAR is the national regulation authority for water and waste services and intervenes in a sector with almost 500 operators, very heterogeneous in terms of dimension, management model and economic capacity. The regulator began its activity in 2000 and for more than ten years, focused mostly in monitoring concession contracts. Since 2011, due to a change in the statutes of the regulator, ERSAR's intervention was broadened to every operator, regardless of their management model. This new statute has led to some readjustments in regulatory procedures but, due to the fact that the design of the regulatory model is quite flexible, it was possible for ERSAR to maintain a stable intervention in the sector.

Session 5:

Upcoming challenges in the water sector

Efficiency and equity in two parts tariffs: the case of residential water rates

Incentive investment policy from the regulator in Italian sector

Efficiency and equity in two parts tariffs: the case of residential water rates

Author: **Simon Porcher** – Sorbonne Business School

Abstract

As first noticed by Coase (1946), a standard result in utility regulation is that efficiency requires two-part tariffs with marginal prices set to marginal costs and fixed fees equal to each customer's share of fixed costs. Residential water customers in France face marginal prices for water that average about 8% more than marginal costs. Rebalancing rates from current tariffs to Coasian tariffs results in lower bills for consumers on average but does create strong distributional consequences. Under price elasticity estimates that are consistent with previous results in the literature, efficiency costs represent around 8 million euros of welfare losses for 2008. Even though the impact is fairly small, efficiency gains from reformed tariffs could be used to fund water assistance programs focused on financially stressed households.



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Incentive investment policy from the regulator in Italian sector

Author: **Lorenzo Bardelli** – Italian Regulatory Authority for Electricity and Gas (Aeeg)

Abstract

Deriving from EU competition rules principle and taking into account EU principles on water pricing policy (see article 9 of Water Framework Directive and the Blueprint to safeguard Europe's water resources), the Italian legislation on water pricing states that «tariff is the price of water service and is determined taking into account the quality of the water resource and the service provided, the infrastructures and other adjustments that are necessary, operating costs, and costs for protected areas, as well as a part of the expenses of the local regulatory Authority, so that to ensure the coverage of the investment and operating costs according to the principle of full cost recovery and according to the «polluter pays» principle».

The Autorita per l'energia, elettrica e il gas (AEEG) establishes and updates the standard tariff. It defines the cost components, prepares and reviews the tariff method for the determination of the price of integrated water service. Finally, it approves the tariffs for integrated water services proposed by the local competent authorities.

Moving from a soft regulation model to a regulation model with an independent authority since a law dated November 2011, AEEG also has competences in regulating, controlling and monitoring water services.

AEEG is using a tariff compensation rule, based on the «Metodo Tariffario Normalizzato» (MTN), aiming at reducing operating cost to promote investments. On average, this method did not prove to work very efficiently. Hence a new method was implemented.

In this new «Metodo Tariffario Transitorio», a revenue cap is defined and calculated. A cost plus mechanism ensures the coverage of actually incurred «exogenous costs». A price cap mechanism sets a «cap» to the costs. This ensures incentive to increase efficiency and/or to invest in cost reducing activities. Operators then have to allocate a share of their revenue to a fund for new investments.

In order to complete a clear and coherent regulatory framework, AEEG is introducing tariff regulation for operators not covered by MTN, software tool and tariff computation, specific rules addressing arrearage and water provision cut off, guidelines for local planning, social tariff computation rules, regulation of service quality, general rules for the change of service provider at the end of the contract.

Detailed programme – Thursday February 7th

14h – Welcome session

Speakers: Jean-Michel GLACHANT – Director of the Florence School of Regulation, Stéphane SAUSSIER – Sorbonne Business School, Maria SALVETTI – Onema

14h30 – 16h00

Session 1: Governance and regulation as drivers for efficiency in the water sector

Chair: Maria SALVETTI (Onema)

- “Firm’s governance and efficiency in the water service provision” Andrea BORDIN – U. of Venice, Mario PADULA – U. of Venice, Paola VALBONESI – U. of Padova
- “Regulation and governance through performance in the service management contract”, Agathe COHEN, Eric REQUIS – SEDIF
- “What determines efficiency?” Monica BONACINA – Istituto di Economia e Politica dell’ Energia e dell’Ambiente, Università Bocconi, Milano, Anna CRETI – Ecole Polytechnique, Paris & EconomiX, U. Paris Ouest, Federico PONTONI – U. Bocconi, Milano

16h00 – 16h20 Coffee break

16h20 – 17h45

Session 2: Assessing & improving performance of water services

Chair: Stéphane SAUSSIER (Sorbonne Business School)

- “IBnet project : international benchmarking network for water and sanitation utilities” Alexander DANILENKO – World Bank
- “European Benchmark Co-operation: learning from international best practices” Peter DANE – Association of Dutch water companies
- “From performance indicators to high quality label for services”, Maria SALVETTI – Onema

17h45 – 18h45

Session 3: Competition for water services in Europe

Chair: Maria SALVETTI (Onema)

- “Water under the bridge: city size, bargaining power, prices and franchise renewals in the provision of water in France”, Eshien CHONG – Sorbonne Business School, Stéphane SAUSSIER – Sorbonne Business School, Brian SILVERMAN – U. of Toronto
- “Outcomes of private sector involvement in small water services in Spain”, Marian Garcia VALINAS – U. of Oviedo

18h45 Cocktail

19h30 Dinner

Detailed programme – Friday February 8th 2013

9h00 – 10h30

Session 4: Governance and regulation practices in Europe

Chair: Stéphane SAUSSIER

- “Regulatory model towards sustainable utilities”, Jaime BAPTISTA, D. ALVES – The Water and Waste Services Regulation Authority (ERSAR)
- “General review of the Austrian water sector and its regulation”, Michael KLIEN – Sorbonne Business School
- “Regulatory models for water & sanitation services”, Guillem CANNEVA – AgroParisTech

10h30 – 11h30

Session 5: Upcoming challenges in the water sector

Chair: Maria SALVETTI (Onema)

- “Social tariffs, an econometric approach”, Simon PORCHER – Sorbonne Business School
- “Investment incentive policy from the regulator in Italian sector” Lorenzo BARDELLI – Italian Regulatory Authority for Electricity and Gas (Aeeg)

11h30h – 12h00 Coffee break

12h00 – 13h00

RoundTable: paving the way for a collaborative research programme between national water regulators and European searchers

Participants: IGOs and European national regulators

Chair: Maria SALVETTI, Stéphane SAUSSIER

13h00 – 13h15 Wrap up session

13h15 – 14h30 Lunch

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