

COST RECOVERY IN WATER AND WASTE WATER

MODEL OF LITHUANIA

TAIEX ECRAN Roundtable Workshop

Rimgaudas Špokas

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Lithuania in Figures

Population

~ 3 million

Area

65,000 km²

Administration

10 counties,
60 municipalities

Currency

EUR

Average salary

750 EUR

GDP

16,386 EUR (74% of
EU)

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WATER SERVICES: KEY FACTS

▶ Water utilities	76 (98% of the market)
▶ Fixed assets	2,2 billion (EUR)
▶ Subsidies	1,0 billion (EUR)
▶ Sales	170 million (EUR)
▶ Payment	~100 %
▶ Consumption	60 – 70 l/per capita
▶ Water metering	100 %
▶ Water resources	Underground aquifer

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STAKEHOLDERS OF WATER SERVICES

- ▶ Consumers
- ▶ Water utilities
- ▶ Municipalities
- ▶ Food and Drinking Water Inspectorate
- ▶ Consumer Rights' Authority
- ▶ The National Price Control Commission
- ▶ Ministry of Environment

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STEPS FOR THE PROGRESS OF WATER SERVICES

- ▶ ECONOMIC REGULATION (1999)
- ▶ REPORT/STUDY (2001)
- ▶ STANDARD ON QUALITY OF SERVICES (2003)
- ▶ STANDARD ON WASTE WATER TREATMENT (2005)
- ▶ STRATEGY OF WATER SERVICES (2005)
- ▶ LAW ON WATER SERVICES (2006)
- ▶ INVESTMENTS (2007 – 2014)
- ▶ REPORT (2013)
- ▶ MODIFICATION OF LEGISLATION AND PRICING (2014)

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STRATEGIC GOALS (2005)

ACCESSIBILITY	Coverage: 95%
AFFORDABILITY	Prices: less than 2% of FI FI – average family income
QUALITY	Drinking water: high/good Waster water: compliance
SUSTAINABILITY	Cost recovery
COHESION	High

Source: White paper (EU, 2004)

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ECONOMIC REGULATION OF WATER SERVICES THE ROLE OF THE NATIONAL REGULATORY AUTHORITY



OUTCOME OF ECONOMIC REGULATION -
optimal price and a long-term technical and financial capacity of utilities and activity

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MAIN PRINCIPLES OF PRICING

✓ COST RECOVERY

✓ "POLLUTER PAYS"

✓ NO DISCRIMINATION

✓ NO CROSS - SUBSIDIES

✓ ELIMINATION OF NON-CORE BUSINESS

✓ TRANSPARENCY

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WATER PRICES (TARIFFS) (1)

- WATER SUPPLY
- WASTE WATER
 - Pickup of waste water
 - Treatment
 - Sludge management
- METERING
- WASTE WATER PICKUP BY VEHICLES (NEW)
- STORM WATER (NEW)

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WATER PRICES (TARIFFS) (2)

PRICE DIFFERENTIATION BY:

- types of consumers (2)
- point of sales
- service type
- seasonal consumers
- pollutants, their nature and pollution loads

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PRICING & LICENSING

EVALUATION (1)

- Past performance indicators
- Quality of services
- Development plans
- Investments

MODELLING (2)

- Efficiency indicators
- Necessary costs & sales
- Depreciation rates
- Profit

PRICING (3)

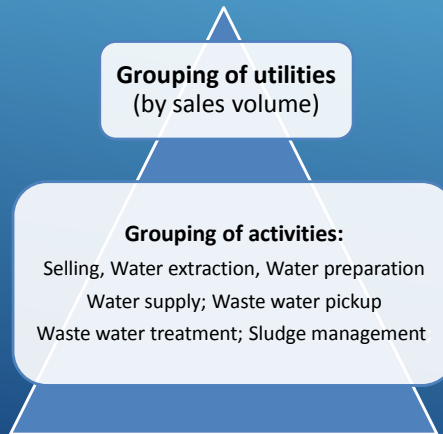
- Basic price (3 years)
- Approval of price
- Annual price

LICENSING

- Capabilities of Utility & quality
- Licensing / control

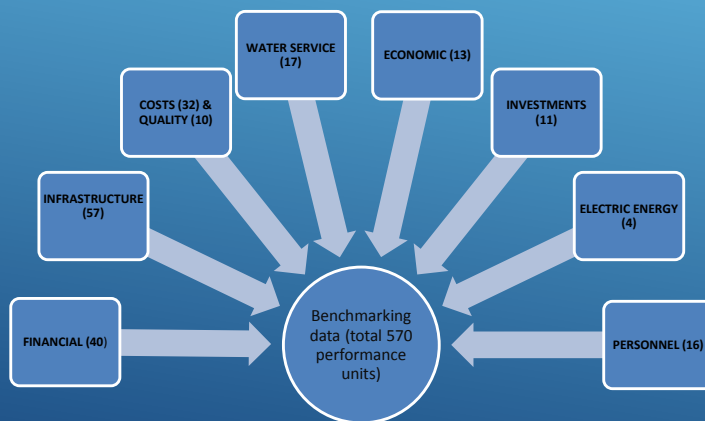
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SETTING NECESSARY COSTS BENCHMARKING (1)



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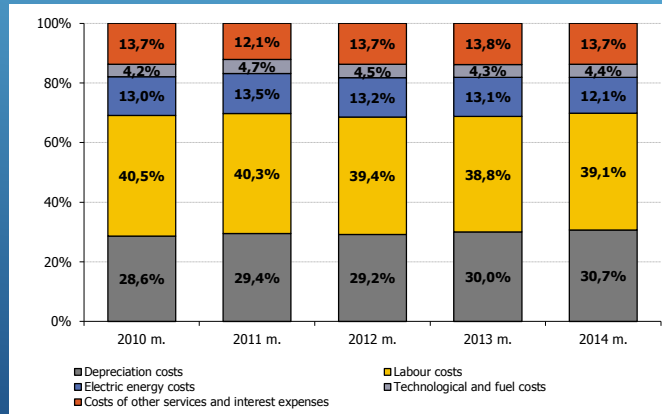
SETTING NECESSARY COSTS BENCHMARKING (2)



Necessary costs – the best (highest) performance indicators

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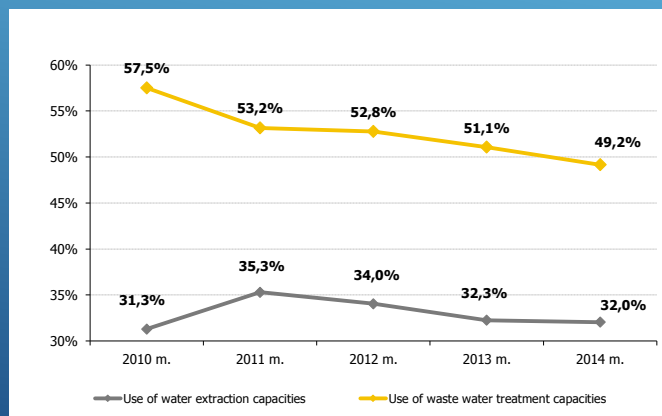
STRUCTURE OF COSTS



Source: NCC

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EFFICIENCY (1) USE OF CAPACITIES

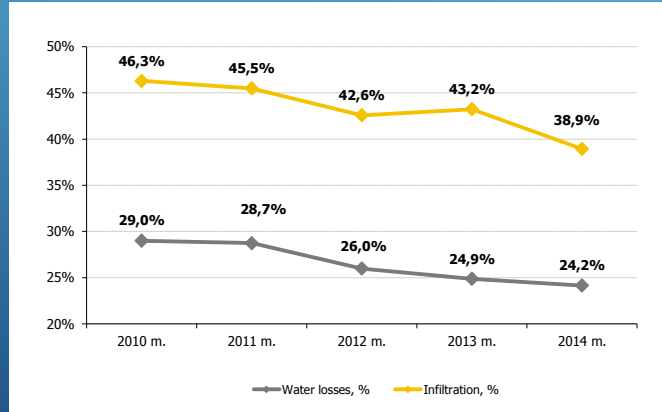


Source: NCC

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EFFICIENCY (2)

WATER LOSSES

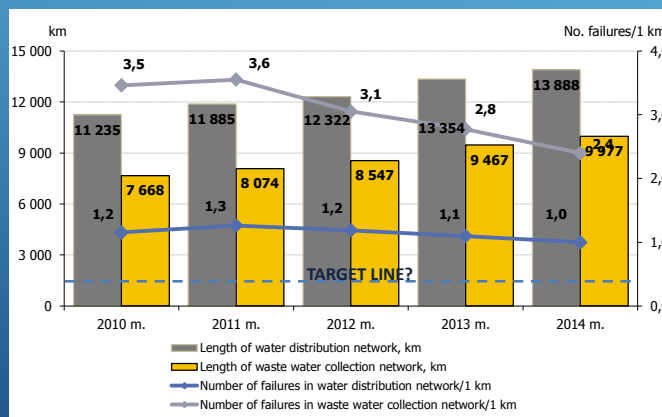


Source: NCC

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EFFICIENCY (3)

FAILURE RATE

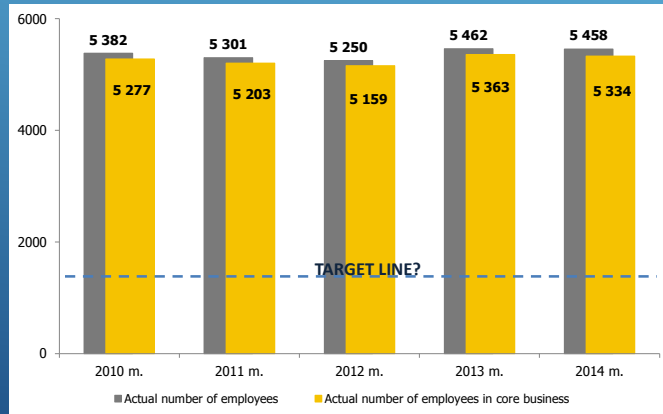


Source: NCC

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EFFICIENCY (4)

NUMBER OF EMPLOYEES

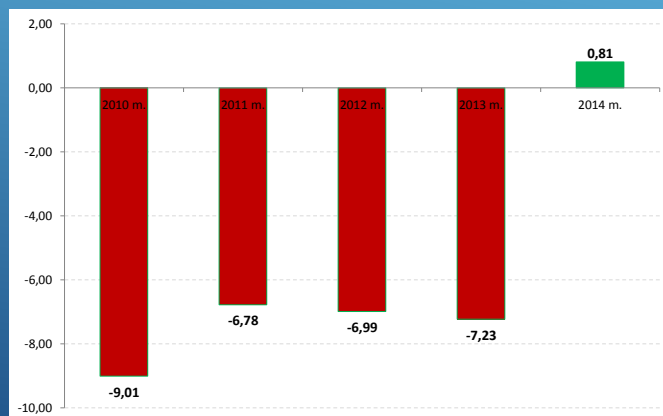


Source: NCC

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COST RECOVERY (1)

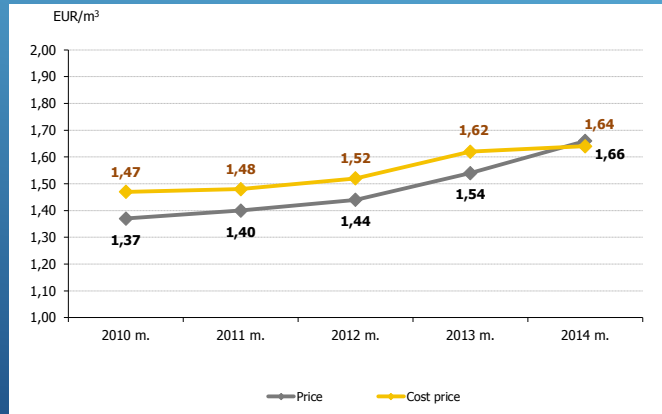
PROFITABILITY OF WATER UTILITIES (M€)



Source: NCC

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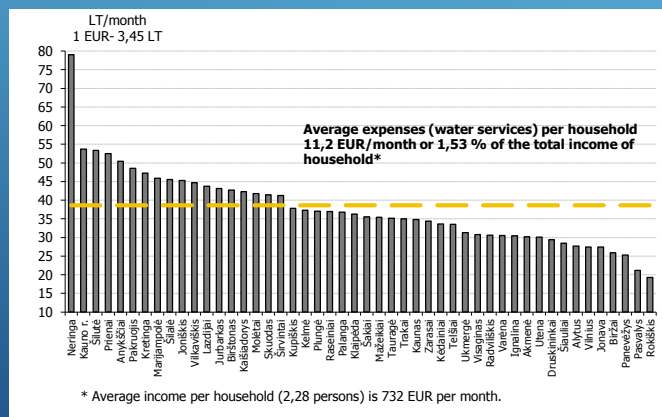
COST RECOVERY (2)



Source: NCC

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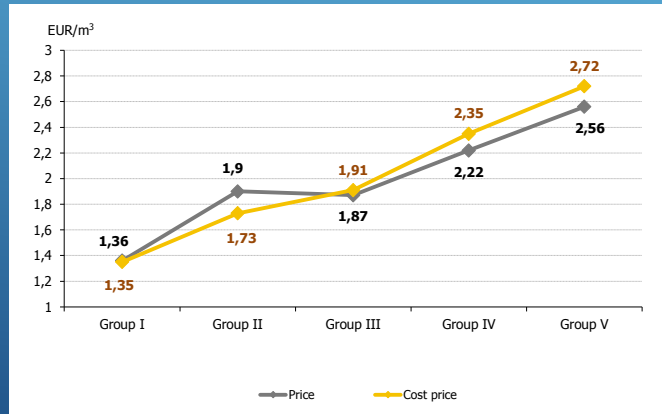
AFFORDABILITY



Source: NCC

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ECONOMIES OF SCALE (1)

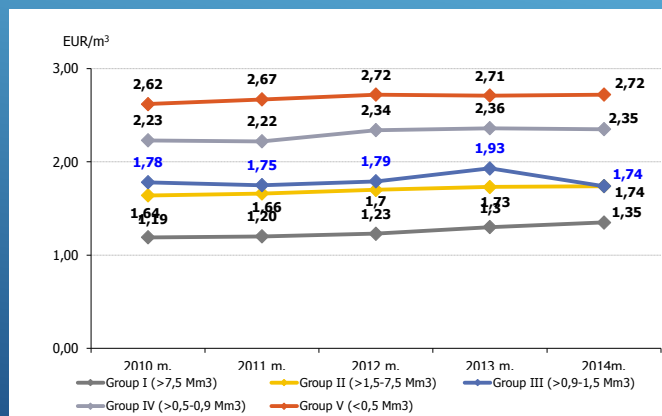


Source: NCC

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ECONOMIES OF SCALE (2)

COST PRICE VARIATION



Source: NCC

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ECONOMIES OF SCALE (3)

► Optimal size of the market/ Profitability of the utility

Less than 10 000 inhabitants	NONE
100000 – 200000	LOW
300000 – 500000	MEDIUM
over – 500000	HIGH

Source: World Bank (2005)

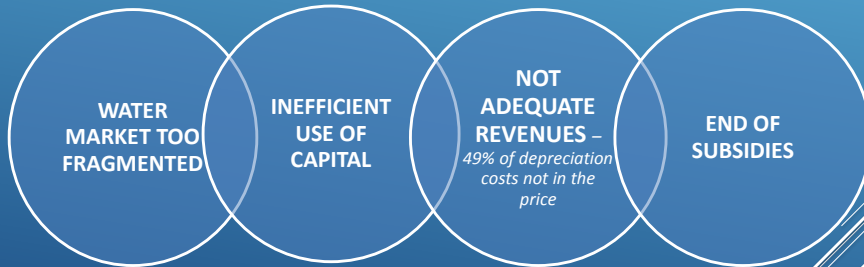
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SUMMARY - 2014

ACCESSIBILITY	Coverage 86% * * The rest of population uses individual wells and tanks
AFFORDABILITY	1,5% (1% - 4%)
QUALITY	Drinking water: high/good Waster water: compliance
SUSTAINABILITY	To be improved
COHESION	EU – High In Lithuania - to be improved

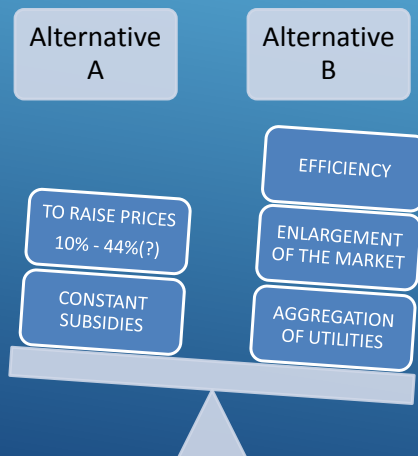
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THE RISKS OF COST RECOVERY



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ALTERNATIVES FOR THE PROGRESS



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MODIFICATION OF LAW ON WATER SERVICES AND PRICING (2014) (1)

□ Pricing

- new rules on data & reports
- cost attribution
- profit (5%)/ return on investment
- basic price (not more than 3 years)
- annual price
- limit of prices – <4% (FI)
- price approval
- fines

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MODIFICATION OF LAW ON WATER SERVICES AND PRICING (2014) (2)

□ LICENSING

- capability of utilities (managerial, technical, financial)
- cost recovery and quality of services
- issue, control and cancelation of licenses

□ THE APPOINTMENT OF THE GUARANTEE SUPPLIER (MUNICIPALITY)

□ NEW AREAS OF REGULATION

- storm water
- pickup waste water by vehicles

□ FINANCING THE REGULATOR

- 0,3% from water utilities' annual income

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CONCLUSIONS / LESSONS

- ▶ **COST RECOVERY – A COMPLEX TASK – COVERS SOCIAL, ECONOMIC, ENVIRONMENTAL AND POLITICAL ASPECTS**
- ▶ **COORDINATION OF STAKEHOLDERS' ACTIONS IS NECESSARY**
- ▶ **WATER PRICES (TARIFFS) IS A FINAL RESULT - THEY REFLECT THE EFFICIENCY OF ALL DECISIONS THAT HAVE BEEN TAKEN**
- ▶ **KEY FACTORS FOR COST RECOVERY:** (i) long term planning,
(ii) regulation of efficiency,
(iii) optimal size of the market,
(iv) sound investments,
(v) independent pricing
- ▶ **WORLD WIDE EXPERIENCE COULD SPEED UP THE IMPROVEMENTS**

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QUESTIONS?

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THANK YOU

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