

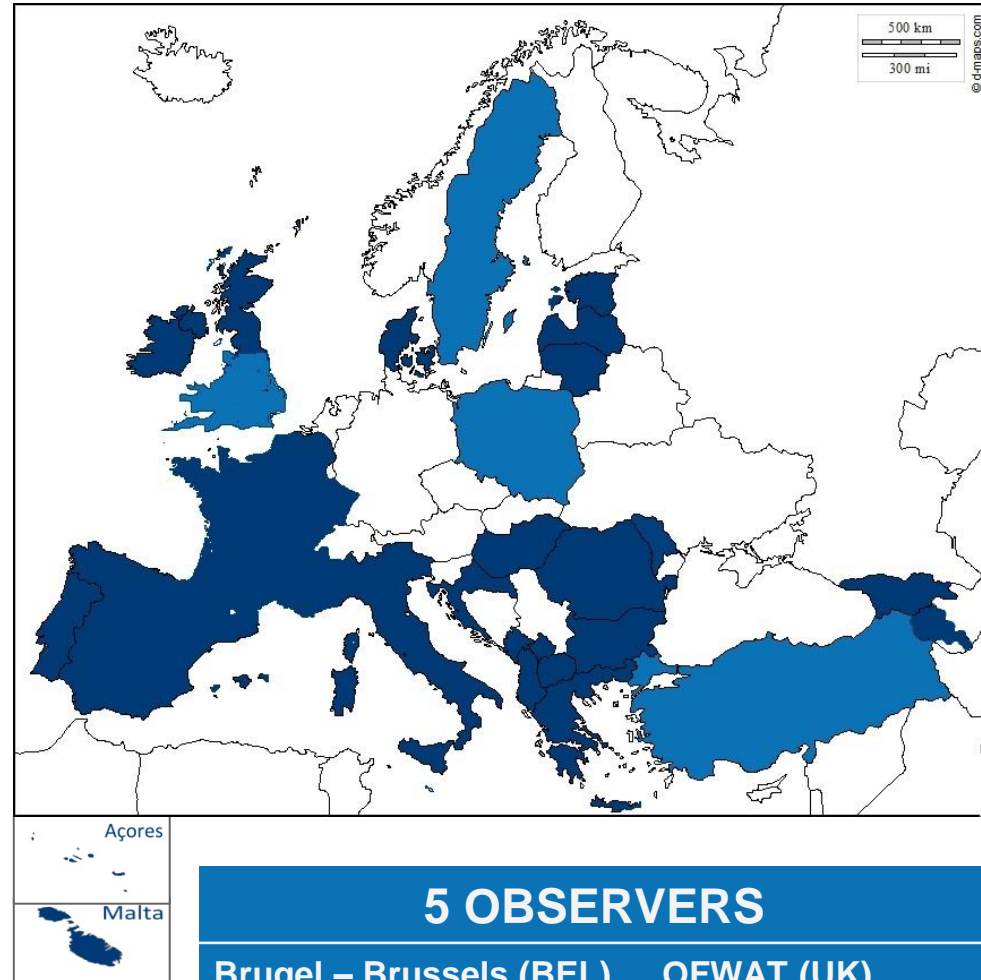
ECONOMIC REGULATION AND WATER SYSTEMS: EXAMPLES AND SUGGESTIONS FROM WAREG EXPERIENCE

**Andrea Guerrini
WAREG President and
Commissioner of ARERA**

**APE Seminar “The new Drinking Water
Directive and Beyond”
26th October 2018
Cremona, Italy**

26 MEMBERS

ANRE – Moldova	MITECO – Spain
ANRSC – Romania	MITES – France
ARERA – Italy	NCC – Lithuania
CRU – Ireland	NIAUR – N.Ireland (UK)
ECA – Estonia	RAE – Montenegro
ERC – Macedonia	REWS – Malta
ERRU – Albania	PSRC - Armenia
ERSAR – Portugal	PUC – Latvia
ERSARA - Azores (POR)	SSW – Greece
EWRC – Bulgaria	VMM – Flanders (BEL)
GNERC – Georgia	VVU – Croatia
HEA – Hungary	WICS – Scotland (UK)
KFST – Denmark	WSRA – Kosovo



5 OBSERVERS

Brugel – Brussels (BEL)	OFWAT (UK)
Min of Environ Poland	SWWA (Sweden)
MoFWA - Turkey	

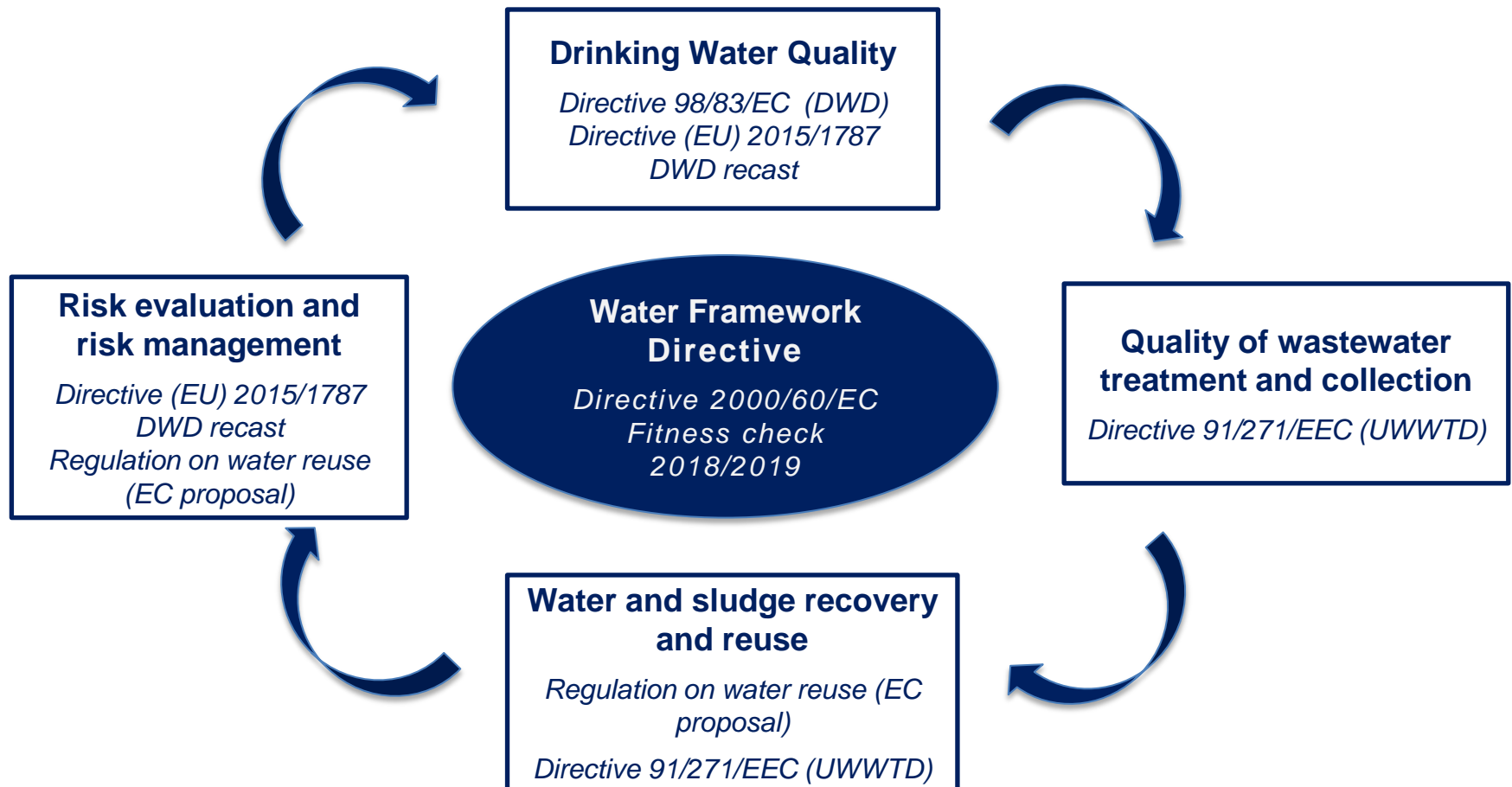
- Established in April 2014
- National and regional authorities, governmental bodies or legal entities dealing with economic regulation

WAREG AND THE EUROPEAN UNION

WAREG is committed to keeping relations with EU Institutions and to participate in the European debate on water and wastewater, bringing the perspective of economic regulation in order:

- to face **similar problems** experienced in European water systems (inside and outside the EU), at national and regional level, such as for instance: **investment needs** to increase drinking **water quality**; **building consumers' confidence**; **ensuring universal access to water**; address urging challenges from **climate change**
- to promote institutional dialogue between regulators, **politicians** and **stakeholders in Europe**
- to **include principles of economic regulation in EU norms**, which so far are limited to very general principles such as for instance polluter pays and cost-based tariff rules

THE FRAMEWORK OF EU WATER LEGISLATION



Member States have to adopt directives into their national legislative framework, and Regulators have to define the right set of incentives and penalties to comply with it

REGULATION ON EU WATER FRAMEWORK – WHAT SHOULD CHANGE

The limited (or totally absent) reference to **economic regulation** into EU normative framework, both from a subjective point of view (WHO) and from an objective one (WHAT, HOW), has created some “**vulnus**” into normative compliance and implementation.

Water Framework Directive

Necessity to detail **full cost recovery principle** in operational rules, in order to prevent different way of implementations in MS' national context.

Water and sludge recovery and reuse

No disposition concerning **who pay innovation in wastewater treatments** and **how to set tariff for water reuse** to agricultural and industrial users (necessity to define wastewater reuse positioning respect to water service chain and regulatory perimeter).

Drinking Water Directive and generally EU normative

Opportunity to involve regulator networks, in order to improve impact cost estimations, also considering **users willingness to pay** concern, and to set a **reporting framework** (according to the amended art. 14).

WAREG AND THE EC PROPOSAL ON A NEW DRINKING WATER DIRECTIVE (1)

WAREG at its 16th General Assembly (Budva, Montenegro, 25-26 Sept 2018), agreed on a common position on the EC proposal, by recognizing the following main principles:

- **the importance of economic regulation** of water and wastewater services to comply with the main objectives of the EC proposal of revision of the current DWD
- **the importance of the action of economic regulators and any other authority established at national level**, in promoting efficiency of operators, investments growth, consumer confidence and environmental protection
- **the importance of the human rights dimension** of access to safe drinking water, that should be addressed in this Directive

WAREG AND THE EC PROPOSAL ON A NEW DRINKING WATER DIRECTIVE (2)

Additionally, WAREG expressed the following
general considerations :

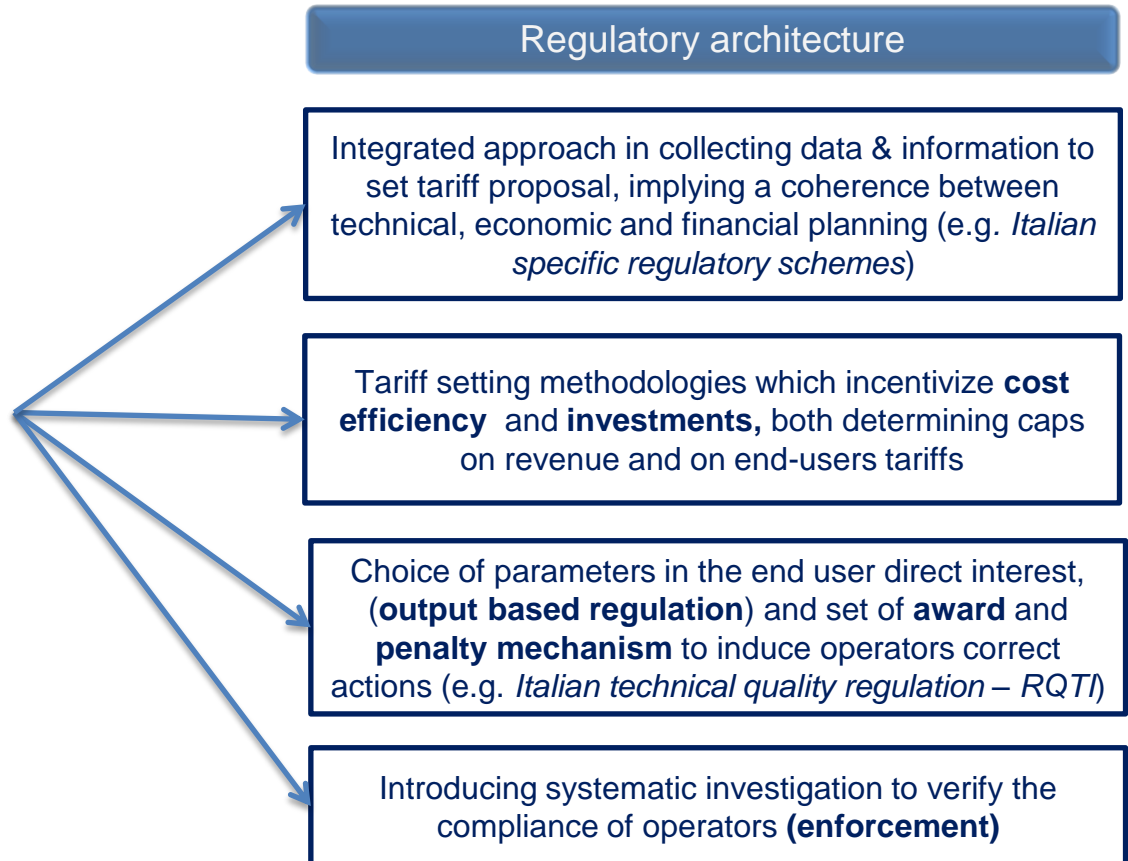
- overall the **EC proposal** is a good step forward, since **more attention is paid to quality** of drinking water, **transparency** of its treatment processes and **delivery** to the customer and the provision of information to the public
- applying more **stringent requirements** on the parametric values and on monitoring obligations can **increase capital and operational costs** for water suppliers that would need to be recovered through tariffs or other means. The effect on final bills for customers cannot be calculated at the moment, and at the same time it is not clear whether the benefits achieved will justify an increase of bills for households. Further clarification is therefore warranted.

WAREG AND THE EC PROPOSAL ON A NEW DRINKING WATER DIRECTIVE (3)

- **WAREG suggests** that the proposed EU Directive should leave the **opportunity for derogations**, in order for the Member States to achieve **adequate cost planning and tariff revisions**
- **WAREG is aware** of the importance of transparency and sharing of information to increase **consumers' confidence** in drinking water, **and considers that various tools** can strengthen consumers' confidence in water quality and consumers' engagement and stakeholder participation in both the legislative and regulatory processes, for example through: raising awareness **campaigns**, **customers' education and information** campaigns on potable water quality
- **WAREG recommends** the definition of reporting scheme that clearly provides all **information required by Article 14** of the EC Proposal in order to assure customers and stakeholders of a **transparent and effective** access to information.

THE ROLE OF THE ITALIAN WATER REGULATOR ARERA

In this context **economic regulators** can act as **catalysts** in the process to directive implementation, by fostering water service operators compliance thanks to **prescriptive** and **incentivizing** tools.



REGULATION BOOST ON QUALITY AND INNOVATION

Since January 2018 ARERA has adopted technical quality regulation **RQTI** (resolution no. 917/2017/R/idr)

Prerequisites

Identifying broad criticalities to overcome

- Includes minimum conditions required by existing legislation:

- drinking water quality** (Dir. 98/83/EC)

- environmental impact**

(Dir. 91/271/EEC) Focus on solving cases resulting from **UWWTD's infringements procedures**

An **award/penalty** incentive mechanism is set on these targets, based both on **state of efficiency** - Ranking referred to the status of the supplied technical quality – and on **efficiency variation** – Comparison and ranking on the basis of delta performance from initial levels.

General standards

- macro-indicators** whose targets are differentiated according to the operator's state of efficiency (class of indicator)
- Other indicators linked to macro in order to better describe technical condition of integrated water service

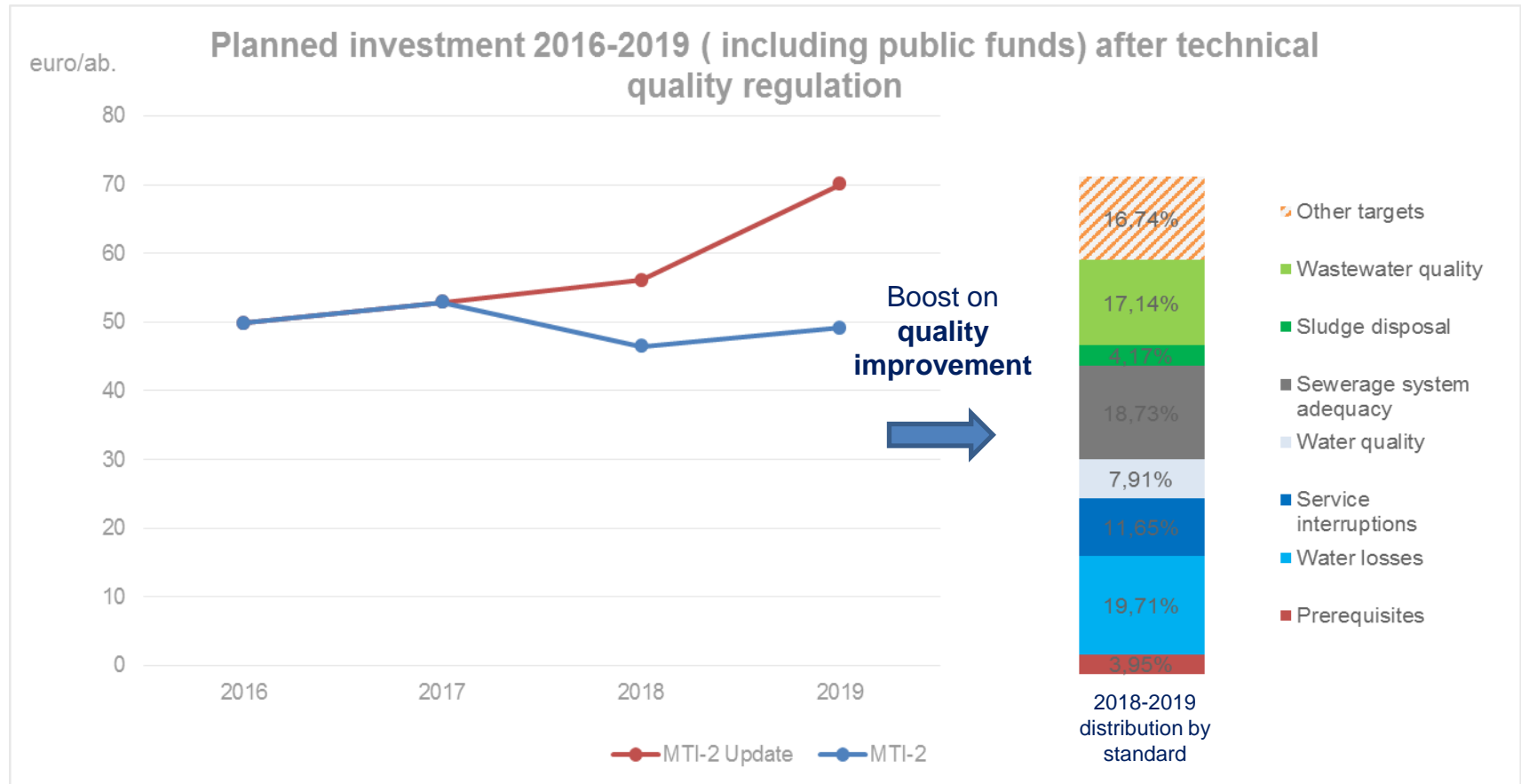
ID	Target
Water supply and distribution	Water losses
	Water interruptions
	Water quality
Sewerage	Sewerage system adequacy
Wastewater	Sludge disposal
	Wastewater quality

Including the adoption of **Water Safety Plans**

Incentive to **sludge recovery and reuse**

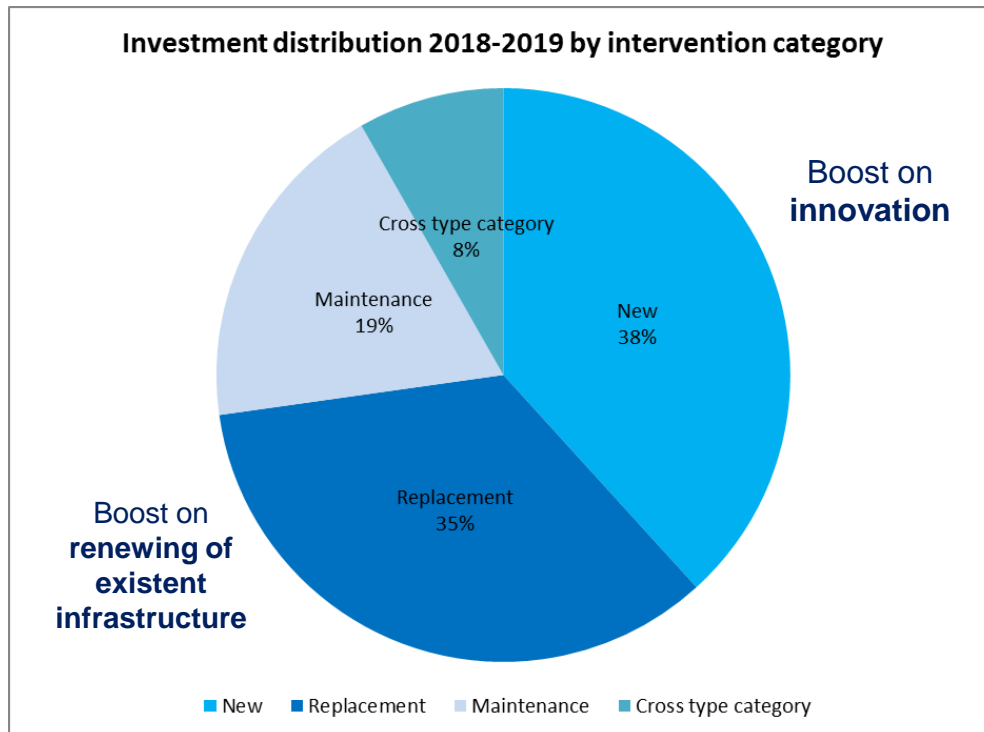
Focusing on other quality aspects of **UWWTD**

WATER INVESTMENT TRENDS (FIRST FIGURES ON ITALIAN EXPERIENCE) 1/2



Source: ARERA elaboration on Infrastructure and Management Programme transmitted by **23 water service operators** serving more than **10 million of inhabitants**, approved by Authority according to resolution no. 918/2017/R/IDR

WATER INVESTMENT TRENDS (FIRST FIGURES ON ITALIAN EXPERIENCE) 2/2



Integrating some of the EU framework objective into an **output based regulation** may ensure its achievement by serving of the **Best Available Technologies**

Source: ARERA elaboration on Infrastructure and Management Programme transmitted by **23 water service operators** serving more than **10 million of inhabitants**, approved by Authority according to resolution no. 918/2017/R/IDR

BENEFITS OF ECONOMIC REGULATION FOR WATER

- **Clear and stable set of norms** (multi-year regulatory periods)
- Increased **investors' confidence** for **new infrastructure investment**
- More **transparency** of information and **increased consumers' confidence**
- Incentives for water utilities to increase **efficiency in network operations and maintenance**
- Operators **efficiencies partially passed on to the customer**
- More **homogeneity** in (technical and commercial) quality standards for water and wastewater services
- Striking **balance** between financial **investment needs**, **affordability** of services and **environmental sustainability**

Thank You

www.wareg.org

BACK-UP SLIDES

- 1. Water investment needs in Europe**
- 2. General information on WAREG**

1. WATER INVESTMENT NEEDS IN EUROPE

STRONG NEED OF INFRASTRUCTURE INVESTMENT

- **A first set of findings** has already been achieved, after data collection among WAREG Members through a questionnaire in 2017, following a **formal request by the EC (DG Environment)**
- Estimated WSS infrastructure investment needs between **€0.5 billion** and **€1 billion** per every million individuals, over **€200 billion** in total
- Investment needs and monitoring regimes are felt as priority issues among WAREG Members
- **WAREG open dialogue with the EC-DG Env and EU stakeholders** (Aqua Publica Europea, EurEau)
- **EC-OECD Workshop** “Assessing Member States’ investment needs and financing capacities for water supply, sanitation and flood protection”, May 18th 2018, Brussels

SECOND SET OF PRELIMINARY FINDINGS (1/2)

- Currently, we are drawing up a **report** on capital investment monitoring regimes
- The aim is to analyze in details both the **governance** and the **regulatory** settings of water systems in WAREG network and, consequently, to identify the **elements** that **ease**, **hinder** and **influence** the investment process
- The report will be sent to OECD and EU Commission, that are working together on the same issues, in view of a possible new set of Water European Directives; clearly, the same report will be published and discussed with all the stakeholders

The **survey** carried out indicates, **preliminarily**, that:

- **Regulation and investments are very closely intertwined**; regulatory setting is of utmost importance in order to obtain investment needed in a water system
- A transparent, stable and shared set of rules is a **key pillar** for easing investments, as well as a clear division of roles and responsibilities

SECOND SET OF PRELIMINARY FINDINGS (2/2)

Among other relevant elements:

- Coordination between **planning** and **regulation**
- Investments and **cost based** tariffs
- **Structure** of the industry (number of operators, their dimensions, etc.)
- Capability to identify and pursue **targets** and **KPIs** (output based regulation)
- **Affordability**, i.e. distribution of costs among consumers
- Possibility to acquire **information**, to fine, etc.
- **Completeness** of contracts between, typically, municipality and operator; length of regulatory period
- **Reputation** of institutions and operators (long run dialogue)

2. GENERAL INFORMATION ON WAREG

WAREG OBJECTIVES

WAREG is a **voluntary organisation** that aims to support its Members in facilitating proactive collaboration, knowledge exchange and capacity building activities. **Our objectives are to...**

1.

Exchange common practices, information and provide joint analysis and comparison of existing water sector regulatory models as well as the performance of water utilities

2.

Organise specialised training, technical assistance, and exchange of know-how, promoting best-practice and stable regulation in water sector at European level, for water and wastewater services

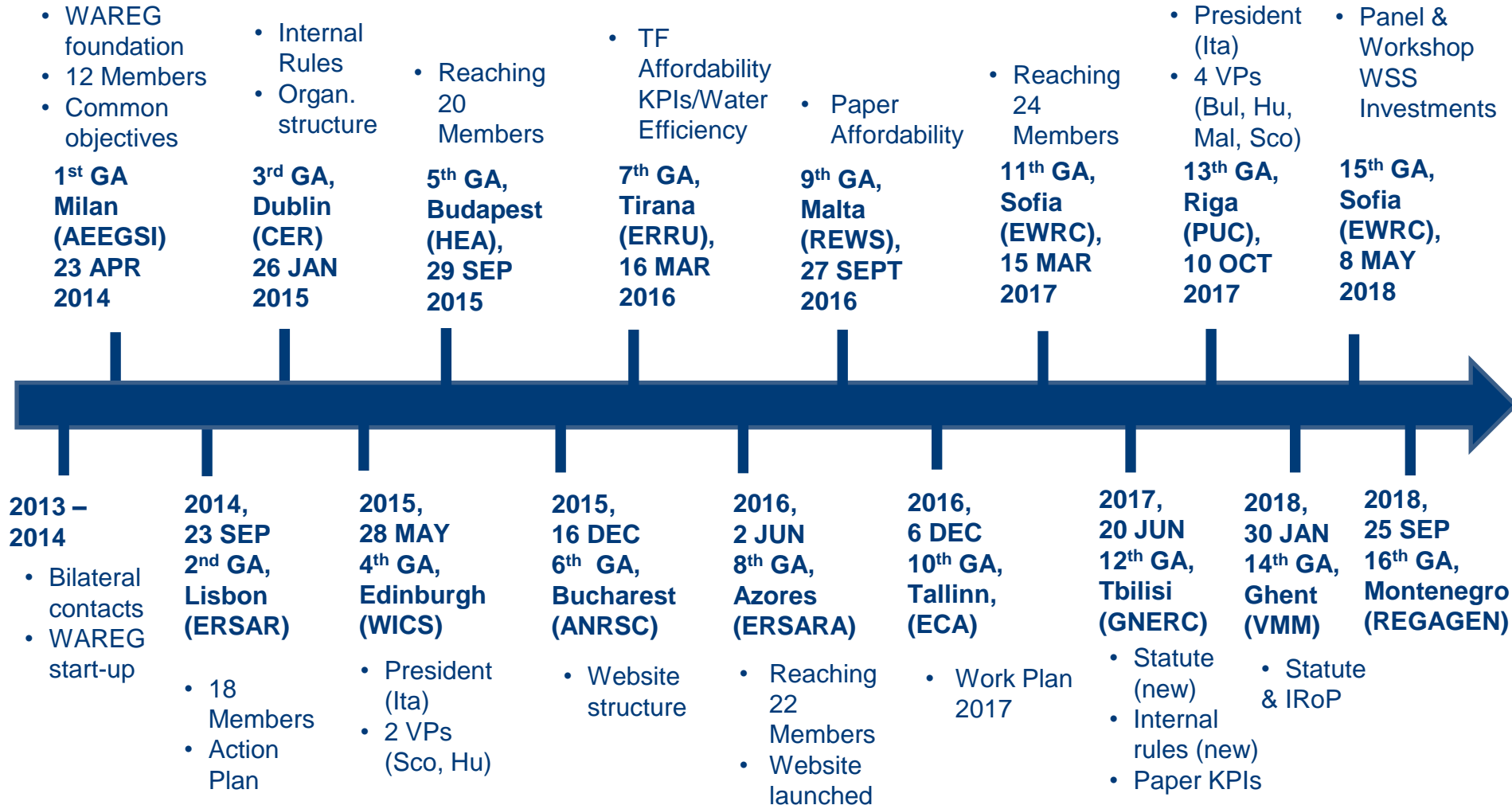
3.

Promote cooperation aimed at analysing the sustainability of services, proper infrastructure investment, good quality services, and consumer protection

4.

Conduct an open dialogue with other relevant regional and international organisations and national institutions, with particular focus on European issues in the field of water and sanitation services

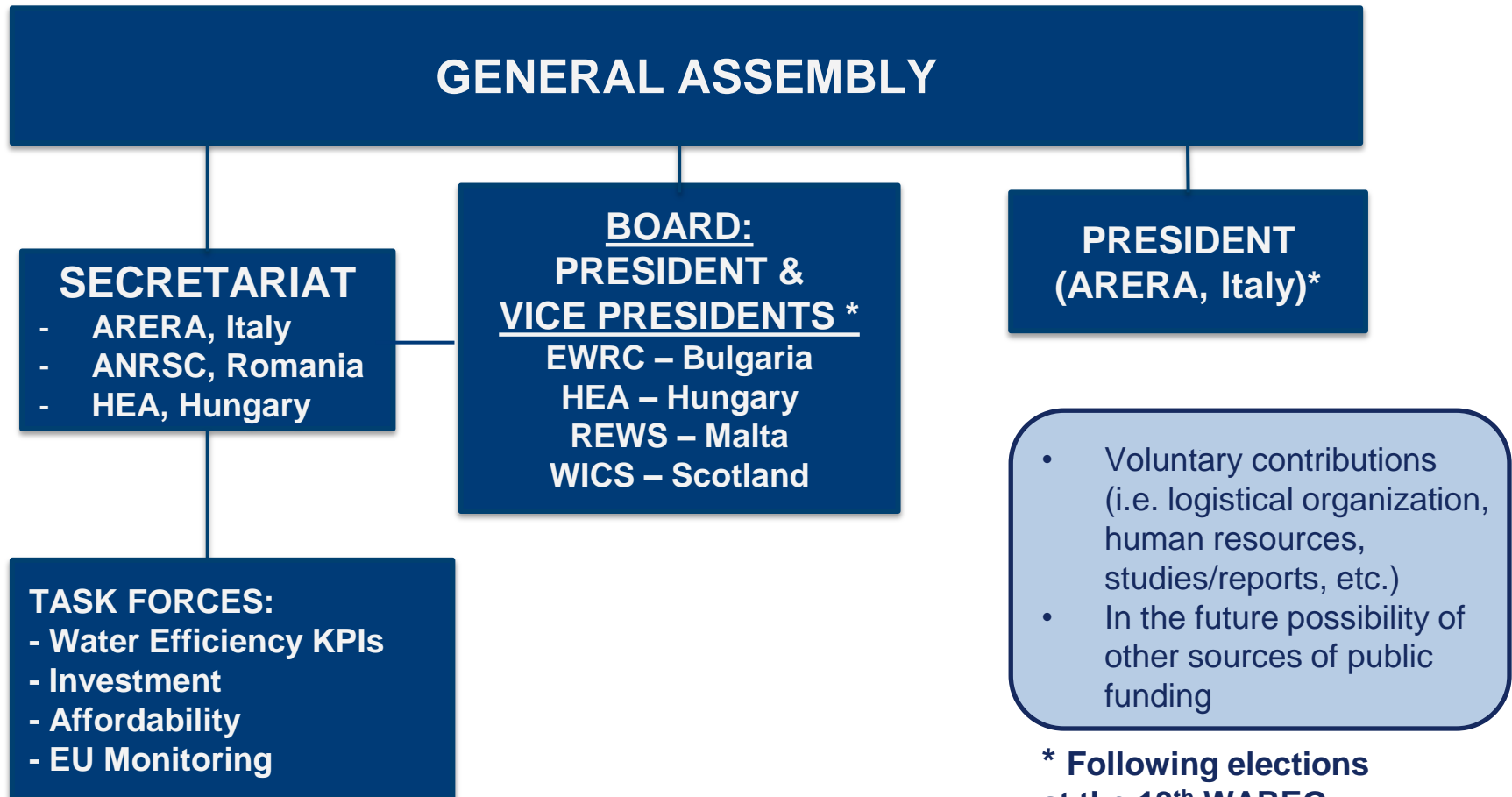
WAREG GENERAL ASSEMBLY MEETINGS



WAREG 2014 - 2018: MAIN OUTCOMES

- **Strong internal cooperation among 31 Regulators (i.e. independent authorities, governmental agencies, ministries)**
- **Strengthened institutional relations and collaboration** with EU Institutions and International organisations and stakeholders (i.e. EIB, IWA, OECD, EurEau, APE, others)
- **Collected considerable amount of regulatory information in Europe** on WSS systems in Europe, governance, customer engagement, industry structure, tariffs
- **4 workshops with stakeholders:** “Cost-assessment in a regulatory context” (2016), “Social tariffs” (2016), “Capital investment monitoring regimes” (2018), “Customer engagement” (2018)
- **Panel with EIB, OECD, World Bank on water investment needs in Europe (2018)**
- **Common position** on EC proposal for a new Drinking Water Directive
- **Achieved surveys and reports on:**
 - Institutional Regulatory Frameworks in Europe (2015)
 - Good practices in public consultations (2015)
 - Affordability in European Water Systems (2016)
 - An analysis of Water Efficiency KPIs in WAREG Member Countries (2017)
 - Water investment needs in Europe (2017)
- **WAREG WEBSITE:** www.wareg.org

ORGANIZATION AND RESOURCES



*** Following elections at the 13th WAREG Assembly (Riga, 10 October 2017)**

ACTION PLAN 2019-2021 (ONGOING)

Following a survey among Members in the first half of 2018, there is consensus to target the following key objectives:

- **Key Objective 1 : Technical Cooperation through promoting exchange of information:**
- **Key Objective 2 : Development and consolidation of relations between WAREG and European institutions, associations, international organizations and stakeholders,**
- **Key Objective 3 : Development of organization: internal coordination and communication**

**ONGOING DEBATE ON
PRIORITY ACTIVITIES AND BUDGET**