

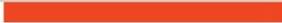
Infrastructure Needs, Water Regulation, Financing Options and Areas of Improvements

Issues as basis for discussion

1st Workshop on Water Regulation

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Introduction

- The EU water sector framework is mainly based on the Water Framework Directive (standards to protect water and promote efficiency)
- At national level and due to the economic and financial crisis , rationalization and reorganization has been pursued: new market design, independent regulator, new institutional architecture, etc.:
 - Decisions are taken to avoid network losses, replace obsolete infrastructures, promote efficient behavior of operators, attract investments, protect consumers
 - Regulation can play a key role: A common set of rules can foster growth and harmonization, facilitating new investment and supporting better sectorial policies at regional level
- The Workshop aims to share views among key stakeholder of water sector on key issues

Governance

- There is no «one-fits-all» approach as each country has its own specificities:
 - Number of actors involved (design, implementation, regulation of environmental standards and tariffs)
 - Involvement of Central Government, Local Authorities, Ministries and – in many instances – Independent Regulators
- No clear governance rules and overlapping of roles can substantiate in barriers to the planning process and operation of Water Companies
- Procedures to meet environmental standards have an impact on timing and costs for delays of investments
- Tariff regulation needs coordination often between different layers of responsibility, at central and local level

Tariff Regulation – Key Issues

- Regulatory periods from 1 to 6 years
- Price Caps versus Revenue Caps
- Full costs recovery versus efficient costs recovery
- Penalties & Rewards
- Quality Targets
- Remuneration of Capital Employed

Water Infrastructure Needs

Nation	Projected Expenditures on Water Infrastructure % of GDP		Average Annual Expenditures USD Billions	
	By 2015	By 2025	By 2015	By 2025
Austria	0.8	0.9	2.6	3.9
Belgium	0.8	0.7	2.8	4.4
Czech Republic	1.9	0.9	3.1	2.8
Denmark	0.8	0.9	1.8	2.7
Finland	0.8	0.7	1.4	2.2
France	0.8	0.8	16.9	25.8
Germany	0.8	0.8	23.4	35.8
Greece	0.8	0.8	2.2	3.3
Hungary	0.8	1.4	2.0	2.8
Ireland	0.8	0.7	1.4	2.2
Italy	0.8	0.9	16.8	25.2
Luxembourg	0.8	0.6	0.2	0.4
Netherlands	0.8	1.1	5.4	7.9
Norway	0.8	0.6	1.6	2.6
Poland	1.9	0.9	7.9	7.2
Portugal	0.8	0.9	2.0	3.0
Slovak Republic	1.9	0.9	1.4	1.2
Spain	0.8	1.1	11.0	16.0
Sweden	0.8	0.7	2.3	3.6
Switzerland	0.8	0.6	2.0	3.2
United Kingdom	0.7	0.9	19.1	28.0
Total	0.8*	0.9*	127.1	184.1

- Annual projected capital expenditures on water infrastructures by 2015 and 2025 amount to 0.8% and 0.9% of GDP on average
- Expenditures ranges from a minimum of 0.2 USD billion to a maximum of 23.4 USD billion by 2015 and from a minimum of 0.4 USD billion and a maximum of 35.8 USD billion by 2025

Regulation and Investments

- The importance of regulation is highlighted by the weight given by credit rating agencies in terms of:
 - a. Stability and Predictability of the Regulatory Environment
 - b. Asset Ownership Model
 - c. Cost and Investment Recovery
 - d. Revenue Risk
- The regulatory framework enhances investments in presence of:
 - Tariff mechanisms that provide predictable cash flows for the entire life of the assets on the basis of stable and transparent rules agreed ex-ante (and periodic updates of parameters)
 - “Safeguard clauses” that allow proper remuneration of invested capital in case of unpredictable events that are outside the control of the regulated company
 - Clear rules that allow investors to recover the value of their assets when early termination in the provision of water services is allowed and at end of the concession in those cases where water services are provided after a concession has been granted

Next Steps?

- Regulation of the Water Sector in Europe has specificities in each jurisdiction:
 - Allocation of competences (tariffs, quality, environment, etc.)
 - Methodologies for the calculation of allowed revenues (volume forecast, capex plan, opex, depreciation, cost of funding)
 - Different levels of quality of services
 - Integrated vertical utilities vs. unbundling of commercial activities and retail competition
- A common minimum approach could be set such to meet requirements to foster investments:
 - core competencies allocated to the different institutional players (Water Authority/Department, Ministry, Government, Parliament)
 - Common set of regulatory accounting rules are applied (allocation of common and joint costs, allocation of direct costs, useful lives, calculation of Regulatory Asset Value-RAV, etc.)
 - How tariffs are calculated for each segment of the industry (volumes, allowed regulatory costs)
 - How quality of services is measured, levels and trends and related premia/penalties
 - Structure of the industry (players in each segment, technological barriers, etc.)