



ECONOMIC REGULATION



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Purpose of presentation

- To provide the Status Quo on Economic Regulation
- To indicate the ideal situation



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WHERE DOES THE MANDATE COME FROM?

- **Constitution**
- **Water Services Act**
- **Section 10 Regulations of the Water Services Act**
- **Section 19 (5) of the Water Services Act**
- **Strategic Framework for Water services**
- **National Water Service Regulatory Strategy**
- **National Water Act (Pricing Strategy)**



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WHAT IS ECONOMIC REGULATION

Economic regulation refers to controls on water provision to ensure safe and reliable water at a fair tariff (price) and agreed minimum service standard are made available throughout the country.

OBJECTIVES:

To ensure that services provided to consumers are effective, efficient, sustainable and meet consumer's needs through:

- ✓ Consumer protection
- ✓ Service quality regulation
- ✓ Price regulation, and
- ✓ Competition regulation



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NWSRS: BUILDING FOUNDATIONS FOR EFFECTIVE REGULATION

- **Improving Financial Transparency:** Ring fencing of services and Tariff review)
- **Performance monitoring:** Regulatory Performance Management System ;Water Services Regulatory Comparative Analysis & reviewing of water contracts
- **Improving understanding of Water Services Sector Performance:** Water Board Business Plan Appraisals and WSA Site visits during the Blue/Green Water Services Audits



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CURRENT WORK IN PROGRESS

1. RPMS
2. Section 10 Regulation
3. Disputes



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Regulatory Performance Management System

- **RPMS was initiated in the 2007/08 Municipal Financial year**
- **It monitored and revealed performance of Water Service Authorities (WSAs)**
- **The Key Performance Indicators were based on the Strategic Framework for Water Services**

KPI 1 : ACCESS TO WATER

KPI 2 : ACCESS TO SANITATION

KPI 3 : ACCESS TO FREE BASIC

KPI 4 : ACCESS TO FREE BASIC

KPI 5 : DRINKING WATER QUALITY

KPI 6 : WASTEWATER QUALITY MANAGEMENT

KPI 7 : CUSTOMER SERVICE QUALITY

KPI 8 : INSTITUTIONAL EFFECTIVENESS

KPI 9 : FINANCIAL PERFORMANCE

KPI 10 : STRATEGIC ASSET MANAGEMENT

KPI 11 : WATER USE EFFICIENCY

RPMS collect information from KPI 7-11 from Water Service

Authorities and KPIs 1-6 are sourced from Department of Water Affairs internal systems



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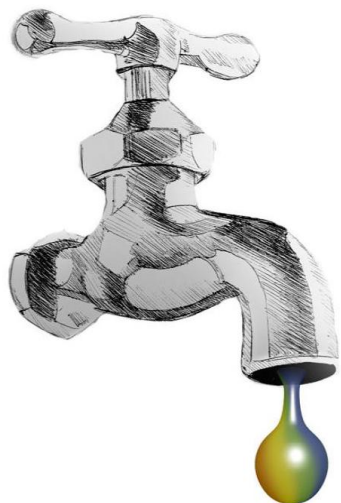
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Relevant frameworks are still to be finalised within the Department of Water Affairs and until such time, WSAs were not been measured against this indicator

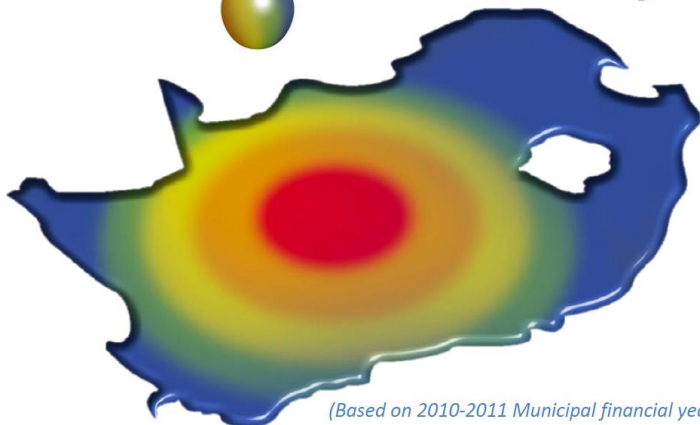


RPMS
REGULATORY PERFORMANCE MEASUREMENT SYSTEM

WATER SERVICE REGULATION



Municipal Water Service Performance Assessment 2012 Report



(Based on 2010-2011 Municipal financial year end data)



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Water Services Regulatory Comparative Analysis

2012 REPORT



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RPMS
REGULATORY PERFORMANCE MEASUREMENT SYSTEM
WATER SERVICE REGULATION

REPORTS



THE NEW APPROACH

INCENTIVE-BASED REGULATION

Introduced : WISA Conference & 4 Symposiums



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...to direct the new approach

- complex reporting by all
- intense investigation;
- same level of assessment regardless of historical level of compliance

to

- targeted information requests
- Check outcomes, not output
- Target high risk areas and institutions for in-depth investigation



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RPMS
REGULATORY PERFORMANCE MEASUREMENT SYSTEM

WATER SERVICE REGULATION



Risk-based regulation

- From a regulatory perspective, the DWA will move more towards



risk-based regulation, using a cumulative Risk Rating approach to prioritize regulatory action.

- Incorporation of this type of risk-based regulation approach will allow for the prioritization of regulatory interventions and focused regulatory attention where and when necessary by DWA.
- **Instead of measuring risk and rewarding incentives for only water quality management, this is now being expanded to encompass the management of the entire water business. From finance, to institutional, to service quality and technical elements**



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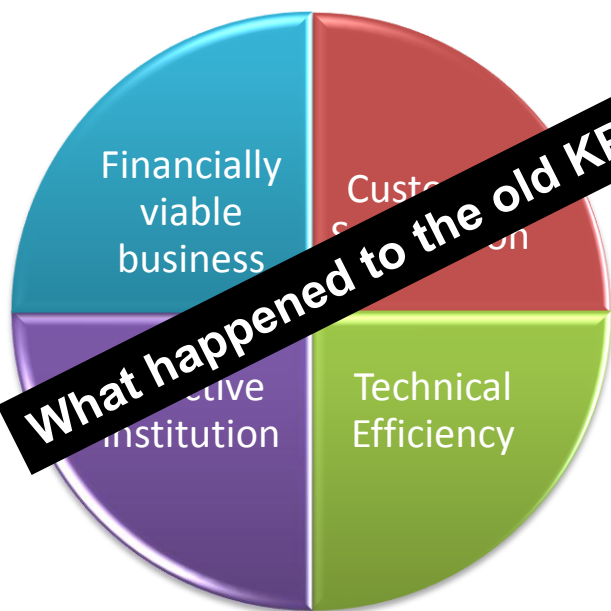


RPMS
REGULATORY PERFORMANCE MEASUREMENT SYSTEM

WATER SERVICE REGULATION

Regulatory risk management framework

What will we measure?



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|---|
| KPI 1 :access to water supply |
| KPI 2 :access to water sanitation |
| KPI 3 :access to free basic water |
| KPI 4 : access to free basic sanitation |
| KPI 5 : drinking water quality management |
| KPI 6 : wastewater quality management |
| KPI 7 : Customer Service Quality |
| KPI 8: Institutional Effectiveness |
| KPI 9: Financial Performance |
| KPI 10: Asset Management |
| KPI 11: Non-Revenue Water |



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- For planning and preparation purposes, the table below shows the intended assessment focus for the next 3 years.

| 2012 | 2013 | 2014 |
|---|---|---|
| Selected KPIs | All KPIs | All KPIs |
| Cost-Reflective Tariffs Contract Management | Financial Viability Technical Efficiency | Customer Satisfaction Institutional Effectiveness |




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IMPLEMENTATION PLAN



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- ✓ **The assessment criteria was communicated during the symposiums**
 - ✓ **Training and selection for Inspectors was done**
 - ✓ **Specific audits dates have been communicated to WSAs**
 - ✓ **Panels from DWA will visit WSAs country-wide where audits will be conducted at the WSA's offices**
 - ✓ **Confirmation sessions dates has been communicated with the WSAs**
 - ✓ **Reports will be published and distributed to WSAs**





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2012 AUDIT PROCESS



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- ✓ **Moderate the scorecards for current audits and communicate back to WSAs prior to the confirmations.**
 - ✓ **Strategic Thinking for RPMS to continue- to prepare for the 2013 audits; development of the assessment tool; handbooks and explore on the possibility that RPMS be an accredited course with UJ**
 - ✓ **Development of the Reports for 2013 & Selection of WSAs for the Awards at the MWQ conference next year**
 - ✓ **Participate in arrangements of the MQW Conference**
 - ✓ **Monitoring of the Action Plans from the WSAs**
 - ✓ **To have a fully New RPMS system in place**
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PROGRESS OF WORK





Section 10 Regulations (Norms & Standards)

- ✓ **Monitoring of the Norms & Standard for Water Services Tariffs (Section 10 Regulations)**
currently compliance is assessed through the RPMS
- ✓ **Section 10 Regulations is currently under review**
Document provide for a separation between WSAs and WSPs to also include the wastewater tariffs
- ✓ **Participate in tariff consultations at different levels of tariff setting**



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Scope of ER

to be implemented



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| FUNCTIONS ↓ TASKS → | CONSUMER PROTECTION | SERVICE QUALITY REGULATION | PRICE REGULATION | COMPETITION REGULATION |
|-------------------------------|---|---|--|--|
| SET RULES & MAKE APPROVALS | Require service providers to be accessible to consumers | Define standards; revised standards; approve exemptions | Determine tariff structure & approve tariffs | Define licence conditions; issue licences; approve contracts |
| MONITOR, ANALYSE & PUBLISH | Customer surveys; call centres | Publish performance; technical studies | Analyse & publish performance & tariffs. | Investigate abuses of monopoly power contract breaches |
| ENFORCE DECISIONS & INTERVENE | Mediate disputes between consumer & service provider | Require improvements in service quality | Require tariff adjustments; apply penalties | Withdraw licences enforce contracts recommend institutional remedy |



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Scope of ER: - To be implemented

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- ✓ WS:ER will continue to implement the functions (water services) as specified in the NWSRS
 - ✓ ER of the Water Resource side : undergoing refinement (pricing strategy) and functions to be defined in the PERR project.
 - ✓ Once the objectives of the PERR project have been realised the two sides (WS &WR) will be better aligned.
 - ✓ One of the objectives of PERR: Institutional model of the Economic Regulator which will house the above mentioned activities.
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Alignment of WS:ER to PERR



Conclusion

Implementation of Economic Regulation through out the value chain:

- ✓ protection of consumers (through fair pricing for good quality water)
- ✓ sustainability of the service provider



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