

Setting the tariffs for the period 2022-2024 for service providers in Kosovo

According to the legal framework Water Service Regulatory Authority (WSRA) of Kosovo initiates a tariff review process every 3 or 5 years. In this context in December 2021 the new tariffs for Regional Water Companies (RWCs) are approved for the period 2022-2024.

While setting the tariffs The WSRA's approach is to ensure that the service providers are able to finance their activities in accordance with their prescribed of service and/or agreed levels standards, including 'fair' return on capital for the money that they have invested. Consequently the tariff is defined by a revenue requirement that satisfies the above condition divided by the volume of water sold (adjusted for revenue collection efficiency). The revenue requirement is made up of three principal components:

- Operational costs;
- Capital maintenance cost, which consists of:
 - Infrastructure renewals (the financing necessary to maintain the serviceability of the infrastructure assets (underground installation)
 - Depreciation cost of buildings and facilities (above ground) assets.
- Return on the Regulatory Asset Base.

RWCs' business plans, once agreed with WSRA, are used as the basis for tariff setting, and are regarded as a 'contractual binding document'. Performance of the RWCs will be measured against the targets as set out in business plans. RWCs are not expected to undertake activities that are not included in the business plans.

The role of WSRA is to find a critical balance between the customer's interests, taking care that customers do not pay more than they need and the need to maintain the financial integrity of the RWCs, to ensure that the RWCs operate as efficiently as possible. We recognize that ideal levels of efficiency cannot be achieved quickly, as such the targets set in this tariff process are challenging for RWCs, but nonetheless realistic.

Tariff policy

Within the overall tariff setting framework WSRA has developed a Tariff Policy for Water Supply and Wastewater Services. The key policy issues contained in this document are:

- For each RWC tariffs shall be uniform across the service area for each customer category;
- Tariff structure consists of the volumetric charge and monthly fixed fee;
- The volume of drinking water read on the water meter, same volume is calculated for wastewater;
- The cross subsidy of non-household customers to household customers for water supply services is to be gradually reduced over time;
- For cross subsidy of non-household customers to household customers for wastewater discharge (and treatment) will remain on the grounds that non-household customers generate more pollution load than household customers;
- Depreciation should not be applied to funded grants or donated assets;
- Tariffs should be sufficient to maintain serviceability of the assets and to finance capital investment (network renewal);

- The RWCs shall be entitled to earn a return on their regulatory asset bases sufficient to finance capital investment in the sector.

The approach of WSRA to reduce the NRW

The role of WSRA is to push RWCs to achieve the highest quality services and make improvements on key-performance indicators. The most important performance indicator is the non-revenue water, in this context a methodology is introduced to encourage all RWCs to be more effective in this regard. It is assumed that the real losses and apparent losses share is almost equal in all RWCs in Kosovo.

In the technical and financial aspect, to reduce the real losses there is a need for investment in the infrastructure, while for reducing the apparent losses there is a need to make the internal procedures more efficient, which do not require investments. Therefore, the WSRA is requiring the RWCs to focus first on reduction of apparent losses, which bring more gains for lower cost. The WSRA methodology to reduce the NRW is based upon following principles:

- Starting point for the reduction of NRW are the audited data of the year 2020;
- From the year 2020 to the year 2022 RWCs are challenged to reduce the NRW by 2% per year;
- For the year 2022 - 2024 is applied the breakdown NRW challenge based on the principle that those RWCs that have higher NRW can make greater progress, compared to those RWCs with lower NRW;

Capital investment threshold

Investment program of RWCs is usually is not well planned. During the tariff process 2022-2024 all RWCs were required to plan their investment plans as instructed by WSRA. The capital investments that were going to be covered by tariffs are as follows:

- Each RWC shall invest min. 10 euro/customer in water infrastructure, of which 50% of the amount should be dedicated to reduce NRW;
- Each RWC shall invest 4 euro/customer in wastewater infrastructure, of which 50% should be dedicated for renewal of wastewater pipes.

Increase of the collection rate

For the tariff process 2022-2024, WSRA has decided to raise the threshold for the collection rate for both categories of customers, challenging RWCs to be more efficient in collection. In this tariff process following collection rates are approved: for household customers the collection rate threshold is 92%, and for non-household customers the collection rate is approved to be 100%.

Optimization of operational costs

WSRA has been very strict not to allow RWCs to increase operating costs compared to 2020/2021, except when RWCs have documented the increase, such as payment of loans to finance new drinking water treatment plants or wastewater treatment plants that were recently put into operation.

Challenges

Amid rising costs of energy, fuel, chemicals and other materials - particularly this year, some of RWCs have raised the issue for tariff review. WSRA will assess the impact of the price increase of goods on the financial

sustainability of RWCs, and if required, WSRA will make an extraordinary tariff review, upon request of service providers.