REGULATED INDUSTRIES COMMISSION

SOCIAL POLICY AND STRATEGY

FOR WATER SECTOR REGULATION

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1. OBJECTIVE/PURPOSE

This document sets out the policy objectives of the Regulated Industries Commission (RIC) in fulfilling its mandate under its Act to protect customers' interests. The release of this document is in fulfillment of the RIC's commitment to address social equity and to ensure that lower income and vulnerable groups are protected by adequate mechanisms that provide them with their basic needs for water. The paper is informed by the current state of the local water and wastewater sector and the broad social policy objectives as articulated in the RIC's Social Action Plan document.

As in the case of the electricity sector price review, the RIC will be releasing a number of publications during the water and wastewater price review in keeping with its commitment to transparency and accountability in dealing with all stakeholders. The RIC will also be reviewing and publishing a document on the current performance and insights into the operations of WASA, and the areas in which improvement is required and how these improvements will impact on consumers who are currently deprived of a reasonable quality of service.

2. INTRODUCTION

2.1 State of Water and Wastewater Sector

The water and wastewater sector continues to be plagued by severe deficiencies with respect to availability, reliability, sustainability and equity of services. In fact, water sector services are characterized by:

- limited water availability with low pressure and/or intermittent water supply. Consumers, even those connected to the piped network, often spend large sums of money on expensive and sometimes unsafe alternatives to cope with the poor quality of services;
- years of under-investment in assets leading to continuous and rapid deterioration of the network and equipment, increasing leakage and wastage of potable water resources, and poor service. The impact of poor service is severest on the rural areas and on the poor who are often not connected to the formal network. Thus, such persons do not benefit from subsidies, while their coping costs are most significant as a proportion of household income; and
- high levels of non-revenue water as a result of illegal connections and high physical leakage levels, coupled with collection problems.

Several factors are responsible for this state of affairs, including:

- historically low tariffs and reluctance to increase them. This has affected WASA's ability to carry out expansion of the network and to renew its facilities;
- increasing population and rising public demand for improved services which are putting pressure on WASA;
- difficulty in sustaining reforms necessary to make the sector commercially viable;
- management inefficiencies and challenges; and
- ineffective mechanisms to ensure accessibility to services by low income groups and rural customers.

Poor operational performance of the water sector can largely be ascribed to poor governance and an inefficient and financially weak service provider that continues to operate without sufficient autonomy, lack of proper incentives, and lack of necessary accountability to consumers. These factors have led to a downward spiral in service levels and efficiency. The result is a low level equilibrium characterized by low tariffs, low investment, poor service and limits on access, especially for poor and rural households.

Overall, the way forward for the water and wastewater sector should include the following:

- putting the water and wastewater sector at the centre of poverty-reduction strategies;
- expanding pro-poor/rural investment;
- setting clear goals and targets and holding the service provider accountable, with non-performance being penalized;
- expanding the current regulatory framework to include strong regulatory capacity to protect public interest through the rules for pricing and investment; and
- reforming water tariffs and subsidies for delivering affordable water to all through targeted subsidies and "lifeline" tariffs.

2.2 Customer Perception

In 2003, the RIC undertook a Willingness to Pay survey to improve its understanding of the issues important to customers in respect of water supply service. The results of the survey provided valuable data on customer satisfaction, the level of service performance, priorities for service improvement as perceived by customers, information on the cost of water and the coping costs. The survey had also requested consumers to prioritize the issues which they saw as most important to their water supply. The priorities highlighted were the **accessibility** (including reliability for piped customers), **affordability,** the uncaring attitude of WASA and the feeling of exclusion and marginalization due to lack of attention to their problems. The findings of this survey also inform this policy document.

3. RIC's SOCIAL POLICY ROLE

3.1 Introduction

Water and wastewater services are socially important. It is in the interest of public health and hygiene to ensure provision of necessary amounts of safe water and access to proper sanitation. The main objective of social policy in the sector is to make services accessible to all consumers at least cost. To benefit the poor, the regulator has to foster access to water and wastewater services and improve the availability, affordability, and sustainability of these services. In this regard, the objective of the regulator is to establish equal rights for access to water, including provision of off-network access where connections are unfeasible.

3.2 Functions of the RIC

The RIC has, as one of its primary functions, to protect the interests of customers. This document sets out the objectives of the RIC in fulfilling its duties to protect consumers. The sections of the RIC Act No. 26 of 1998 which support the framework for a meaningful role for the RIC in **regulatory social policy** are (selectively) as follows:

- prescribe and publish standards for services [Section 6(1) (e)];
- monitor service providers and conduct checks to determine their compliance with the standards [Section 6(1) (f)];
- impose such sanctions as it may prescribe for non-compliance with the standards [Section 6(1) (g)];
- investigate complaints by consumers of their failure to obtain redress from service providers in respect of rates, billings and unsatisfactory service and facilitate relief where necessary [Section 6(1) (e)];
- in the provision of its functions, the Commission (RIC) shall have regard to the public interest and in particular [Section 6(3) (a) (b) (c) (d)]:
    - to maximum efficiency in the use and allocation of resources to ensure as far as is reasonably practicable, that services are provided at the lowest possible cost
    - to equal access by consumers to service

- to fair treatment of consumers and of service providers similarly placed
- in respect of consumers similarly placed to non-discrimination in relation to access, pricing and quality service;

- establish the principles and methodologies by which service providers determine rates for services [Section 6(1) (h)]. In setting out the principles (for rates to be charged) the Commission shall have regard to [Section 67 (3) (c) (d)]:
  - the ability of consumers to pay rates
  - the results of studies of economy and efficiency.

The RIC's powers to obtain any information required or to answer any question, as well as to impose a fine in cases of failure to comply [Section 59 (b) (c) and 66] in support of the consumer interest are an amalgam of the service provider's duty "to provide service that is safe, adequate, efficient and non-discriminatory" and the RIC's functions "to monitor standards of performance for provision of services" and "to investigate standards of quality of service given to customers".

4. RIC's SOCIAL POLICY OBJECTIVES

4.1 Introduction

The remainder of this document sets out the RIC's policy objectives to protect consumers' interests in key areas. A regulator generally expects three guarantees from the water utility:

- access to water services by all;
- sustainable supply of water services of a defined quality at least cost; and
- water conservation and environmentally friendly operations.

4.2 Accessibility and Reliability of Supply

Currently, due to limited water resources coupled with high physical leakage and other inefficiencies in supply, less than 25% of the population receives a 24-hour piped supply. In fact, customers have been divided into five classes based on the supply received, as shown in the table below. Customers belonging to Classes (IV) and (V), receiving between 0 to 48 hours per week supply are the worst served customers, and account for approximately 10 to 20% of WASA's customers. The prevalence of intermittent water supply is so high that most people now regard this situation as normal. Furthermore, the cost of coping with intermittent water supplies for households is very high. The average cost for installing pumps, tanks and others equipment is estimated at $5,300.00 per household.

Table – Summary of Scheduled Areas

Class	No. of Hours Per Week	No. of Areas	Estimated Population	% of Total Population
I	168	257	195,861	16.5
II	120 – 168	927	385,564	32.6
III	84 – 120	781	357,469	30.2
IV	48 – 84	195	174,417	14.7
V	0 – 48	166	71,036	6.0
			1,184,347	100.0

Source: WASA

Intermittent supply actually leads to higher costs and greater inconvenience for customers and the service provider. Compared with 24-hour supply, intermittent supply uses more water and generally leads to the exploitation of the poor. Furthermore, about 4.5% of the population depends on standpipe supply while a similar percentage (4.5%) depends on truck-borne supply (paying about 10 times more than piped water), thus bearing a disproportionate burden from the current state of water supply. The objective of large-scale subsidization of water on grounds of lack of affordability by the poor, has definitely not been achieved.

In light of the above, the RIC will support any interventions which result in improved access for all consumers, improved continuity and reliability of supply, with the ultimate goal of direct connections for all. The RIC will take a lead role in the resolution of the accessibility and reliability of water supply issues in line with its regulatory mandate to protect the interests of consumers. In fact, the RIC believes that a more strategic approach that puts the poor at the centre of the solution is critical to achieving the objectives of social policy in the water sector.

Investment in water supply projects will not benefit the low-income groups unless such investments specifically target them. Water is under financed and the biggest financing gaps are in rural and low-income communities. Closing these gaps requires predictable spending on rural communities. Consequently, the RIC will insist that the service provider includes pro-poor criteria when undertaking water supply projects. These projects should be primarily implemented under the Public Sector Investment Programme (PSIP) and the National Social Development Programme (NSDP). These two programmes have been the cornerstones of WASA's capital investment programme since 2002.

The RIC will also specifically include water supply projects for the worse served areas when establishing the revenue requirement for the service provider, thereby making funds available for the undertaking of these projects. The RIC will also monitor the implementation of these projects on a continuous basis. The objective here is to expand

pro-poor/rural investment, as water is under financed, and to reorient public spending at an increasing rate where necessary. Improvement in supply will necessarily be incremental in order to reach the greatest number of low income and rural consumers.

Policy Statement:

(1) Improving access to and reliability of water

- **The RIC will promote equal rights for access to water services. This means that the RIC's focus will be on expanding connections to the network.**
- **The RIC will support any interventions which will lead to improvement and more reliable access to water in the short and medium term with the ultimate objective of direct connections and continuous water supply to all.**

(2) Targeting investment for low income/rural consumers

- **Overall, the RIC will put water at the centre of poverty-reduction strategies with predictable fundings.**
- **The RIC will promote and support strategies designed to assist the poor to gain access to the piped water supply system through funding mechanisms (e.g. including water supply projects when establishing revenue requirement for the service provider) specifically designed to help the lower-income/poor groups.**
- **The RIC will also instruct WASA to include pro-poor criteria when undertaking investment in water supply projects.**

4.3 Codes of Practice

Customers' access to supply is primarily a function of the price of water and wastewater services. It is also affected by a range of secondary issues relating to the credit management policies of the service provider. This includes the availability of payment plans and discounts to assist customers having difficulty paying their bills, financial counseling, forgiveness of arrears, procedures for disconnection of customers for non-payment of bills, and disconnection moratoria, etc. These matters, therefore, provide an overview of the affordability of the service provider's services to customers experiencing payment difficulties.

The RIC is, in fact, committed to the introduction of Codes of Practice, which are essentially a set of guiding principles that the service provider consistently uses in dealing with specific customer issues. They are designed to improve the delivery of the service provider's social obligations. Under this initiative, WASA will be required to prepare and submit Codes of Practice for RIC's approval on the following:

- Provision of Priority Services for Vulnerable Groups;
- Procedures for dealing with customers in Default;
- Debt Recovery and Disconnection Procedures and Policies;
- Retroactive Billing Policy;
- Range and Accessibility of Payment Methods;
- Handling of Complaints; and
- Continuous Consumer Education.

Policy Statement:

The RIC will require the service provider to offer:

- **the right to negotiate reasonable payment arrangements for customers experiencing payment difficulties (instalment payment plans). This does not mean, however, that customers use payment plans as a matter of convenience or for flexible budgeting purposes;**
- **access to financial counselling; and**
- **every opportunity for customers to make payments before disconnection action is taken. A number of steps need to be taken before supply is actually disconnected:**
  - **offering the customer alternative payment options.**
  - **using best endeavours to contact the customer in person.**
  - **giving a specified period of written notice of the intention to disconnect.**
  - **distinguishing between customers who refuse to pay and those who cannot pay.**

4.4 Social Tariffs and Affordability

It is important that rates be set to reflect the costs of providing service to particular customer classes in order to meet several important objectives:

- for collecting sufficient revenues to attract necessary capital for network maintenance and expansion, as well as for operations;
- for sending efficient price signals to customers; and
- for allocating costs of the network fairly among customers.

Setting appropriate prices are central to the improvement of water and sanitation services. Water tariff setting must increasingly focus both on economic efficiency and financial viability. The "full cost recovery" principle not only leads to cost recovery objectives, but is also likely to lead to a higher quality and stability of service over the long term.

However, public policy also has a proper role to play in setting utility rates and services, for at least two reasons: to overcome market failures in a sector such as water and wastewater; and to promote important public goals. The challenge to the regulator is, therefore, to seek to simultaneously incorporate economic, environmental and social objectives in water pricing and to deliver low-cost services to particular classes of customers, especially low-income and vulnerable groups. A water utility is not a social agency and cannot provide social support to the detriment of its efficiency or technical capacity. Tariffs have an obvious social impact, but this impact needs to be addressed using socio-economic mechanisms (e.g. subsidies), that are beyond the water utility's operations and competence.

Apart from the need to protect the welfare of the most vulnerable members of society, the regulator must protect all consumers from monopoly abuse through appropriate regulation and monitorable benchmarks of utility performance. In addition, the service provider needs to communicate with customers, provide information and share development plans that may affect consumers. Thus, there are three main topics for discussion in furtherance of these socially related issues:

- social protection, specifically protection of the lower income groups/poor;

- standards of service; and
- communication with the consumer (duty to care).

4.4.1 Social Protection, specifically protection of the lower income groups/poor

It is useful to base tariffs on financial viability criterion ("full cost recovery") as an operating principle in the management of water supply system and then manage affordability issues through discrete instruments. Policies aimed at improving the affordability of water services must better target the groups most in need through innovative tariff structures and targeted subsidies. As tariffs increase and/or poverty level rises, a targeted subsidy may become unavoidable. In fact, the poor will be better served by gaining access to piped water under current circumstances rather than receiving global/general subsidies. With respect to subsidies, the RIC's position is that:

- subsidies need to target the poorer consumers in a transparent manner, rather than through across-the-board subsidies;
- a subsidy should be established at a minimum level and must not support excessive consumption;
- the subsidy scheme should not distort incentives; and
- a subsidy source needs to be predetermined and disclosed and paid to the service provider preferably out of general tax revenues.

There are two (micro and macro) aspects of the affordability of household water services. The measure of **aggregate (or macro)** affordability involves relating average water charges to either average household income or to average household expenditure. Internationally, a figure of 5% of household income has been accepted as a realistic ceiling on affordability for water and sanitation services. On the other hand, the **micro** aspect concentrates on affordability for lower-income groups and addresses the issue either by tariffs (tariff solutions) or by targeting individual/groups of households (target group solutions), where assistance may be provided via tariff discounts or via income support. The tariff-based approach is generally financed through some form of cross-subsidization, while target-group solutions are financed by Government and include a

variety of "safety nets" (Payments Assistance scheme, Pension Rebate scheme, etc.) to assist consumers experiencing financial difficulties.

The RIC will use a variety of measures to achieve a wide range of economic, environmental and social objectives. The use of tariffs, in general, and different elements of water price structures (connection charges, fixed charges, etc.) will be utilized to best achieve particular policy objectives.

Policy Statement:

- **The RIC will ensure that no residential customer pays more than 3% of monthly family income for water service.**
- **The RIC will establish a lifeline block[1] ("social block") in the tariff structure for consumption – related tariff. This block will reflect basic needs to ensure an acceptable quality of life with respect to hygiene and basic household needs.**
- **The RIC will include an explicit subsidy to the lower income groups/poor for meeting the connection charge (e.g. a fixed dollar discount on connection charge) and would require the service provider to develop and use an appropriate credit system to spread the payment for connection charge over time.**
- **The RIC will establish a special low-income assistance programme whereby a separate fund will be established by the service provider to cater for the special needs of the poorest and most vulnerable consumers in the society.**
- **The RIC will also support any intervention by the Government whereby the poor groups receive a discount on their total bills such as the Hardship Relief Programme.**

[1] When the rising block tariff is applied for domestic customers, the lowest block band, defined as the lifeline tariff, is set to reflect affordability.

4.4.2 Standards of Service

Establishment of minimum standards makes a social policy more transparent and fair to the lower income/poor groups. The RIC is committed to ensuring that water delivered is safe and will not be deleterious to public health. Additionally, it is important to ensure that the service provider takes steps that will prevent any disasters and requires that emergency relief plans are defined to cope with any eventuality.

The RIC will adopt a pro-active approach to water quality management by involving all stakeholders playing their roles effectively to ensure adequate protection of the resource. The RIC will use the audit approach in its monitoring of water quality, noting that the ultimate responsibility for ensuring the supply of good quality water and reporting to the RIC rests with the service provider. Under this arrangement, the service provider will be expected to submit regular reports on water quality in respect of its operations. The RIC will carry out, if necessary, its own audits to determine the level of compliance. In this respect, the RIC has already implemented its Event Notification and Response Management Plan. The RIC will also follow up on customer complaints and will require that the service provider take immediate steps to remedy confirmed cases of default. In fact, clear goals will be set which the service provider will have to meet. Non-performance should be penalized.

The RIC is aware that the current rationing arrangement and intermittent supply tend to compromise some aspects of water quality and increase the cost of operation. Nevertheless, the current state of supply is expected to continue into the short to medium term and, therefore, the utility will be required to take all reasonable measures to ensure that the quality of water to the final consumer is not compromised by the current state of supply.

From observation it appears that water quality can be severely compromised by the way water is handled and stored by secondary providers. Contamination can take place at different stages, from water trucking and in the homes of consumers from unclean storage

tanks and containers. Yet, at the moment, no single agency seems to have seriously taken the responsibility to create awareness for water quality and for hygiene education.

Policy Statement:

- **The RIC will promote best practice in achieving water quality which is safe for drinking.**
- **Overall, the RIC will promote the following minimum standards at the policy level:**
  - **pressure to be a minimum 20 psi to avoid contamination**
  - **continuity to be 24 hours/day**
  - **availability to be a minimum of 20 lpcd (for subsidy purposes)**
  - **water quality that meets World Health Organization guidelines.**
- **The RIC will insist that regular disinfection is carried out by WASA when trucking water.**
- **The RIC will promote consumer awareness of water quality and hygiene issues in collaboration with the service provider and other relevant institutions.**
- **The RIC will support other water quality and health education initiatives undertaken by any other organization.**

4.4.3 Customer Service and Protection (Duty to Care)

The service provider must recognize the customer's rights to essential information related to the service and to be informed about expansion, rehabilitation, reconstruction and other plans that may affect service costs and reliability. The service provider must be interested in consumer satisfaction and the need for its consumers to become equal partners because it is they that fund utility operations. Such a partnership can help to reduce complaints and increase collection rates by improving willingness to pay for services. There are several ways to strengthen relations with customers:

- providing a right for important information (e.g. on planned service interruptions);

- consulting customers when designing projects so as to link investment decisions to effective demand;
- responding to oral/written customer queries in a timely manner;
- using the billing process for information dissemination; and
- communicating with the consumer and active groups (NGOs consumer societies, etc.).

Individuals with common problems wish to be heard and taken seriously and at the very least be given an explanation why circumstances cannot be changed. Often they have little recourse to obtaining a hearing. The RIC will assist in this regard by putting in place specific requirements for the monitoring of complaints handling and other customer response measures for its annual and periodic monitoring of the service provider's performance.

Public awareness and transparency are generally regarded as the keys to civil society involvement. Therefore, there is also a role for NGOs, consumer societies and the media. At a minimum, the RIC will continue to foster the following objectives:

- **public access to the RIC and its processes** through, the utilization of toll-free telephone number to receive calls from the public, its website, and by making sure that the RIC's rules and procedures for resolution of consumers complaints are easily understood by the public;
- **community/stakeholder participation** through stakeholder workshops/forums, national consultations and stakeholder information days;
- **public education** – perhaps this is the most effective means of consumer protection. The educational effort of the RIC will involve:
    - information about public safety
    - information about low-income assistance programmes
    - information about conservation and demand-side management
    - information about the RIC and the role it plays in consumer protection, that is, its complaint process, connection and disconnection rules, etc.
    - disclosure of pricing;

- **fairness and balancing of powers of the stakeholders** through the assurance that the consumer has equal standing before the RIC; and
- **timely resolution of complaints**.

Additionally, as indicated above, as part of its desire to bring benefits to rural and lower income groups, the RIC will specifically include small mains rehabilitation/extension projects in critical areas in the calculation of revenue requirements for the service provider and monitor the implementation of these projects.

Policy Statement:

- **The RIC will ensure that the service provider has in place, systems and procedures to provide appropriate and timely response to customers' concerns and strengthen relations with them.**
- **The RIC will continue to actively promote the concept of community participation through stakeholder workshops, national consultations and Stakeholder Information days, as well as by obtaining and publishing information to ensure that the requirements of civil society are better observed in the service provider's operations.**