

**FRAMEWORK & APPROACH**

**FOR THE PRICE REVIEW:**

**FOR THE CONTROL PERIOD  
2018 – 2023**

**WATER & SEWERAGE  
AUTHORITY**

November  
**2017**

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This document is one of a series of discussion papers being published as part of the Price Control Review for the Water and Wastewater sector, when the RIC will set charges for the period 2018-2023.

Summary  
Document



## **1. BACKGROUND AND ADMINISTRATIVE APPROACH TO THE REVIEW**

The Regulated Industries Commission (RIC), in accordance with Section 48 of its Act No. 26 of 1998, is required to review the principles for determining rates and charges for services under its jurisdiction every (5) years. This is a summary document of the RIC's **Framework and Approach: for the Price Review for the Control Period 2018-2023 Water and Sewerage Authority**, document. The main document outlines the RIC's overall process and approach to the price review, and broadly highlights the major issues the RIC will consider in its determination of price controls for the water (distribution) and sewerage sector and the Water and Sewerage Authority (WASA), the sole service provider within the sector. **A copy of that document is available on the RIC's website at [www.ric.org.tt](http://www.ric.org.tt)**

Broadly, the RIC's approach to the establishment of price controls consists of three steps. The first step involves establishing the service standards. The second step involves assessing each of the key components of revenue to ensure that the service provider earns sufficient revenue to deliver reliable services to its customers. The methodology utilized here is known **the building block method**. The final step involves determining the tariffs to meet the revenue requirement and the mechanism for controlling changes in the tariffs over the regulatory period.

The RIC's overall administrative process for the conduct of the Price Review is shown in **Figure 1** and the timetable of regulatory activities is shown in **Table 1**.

**Figure 1: Administrative Process for the conduct of the Price Review**



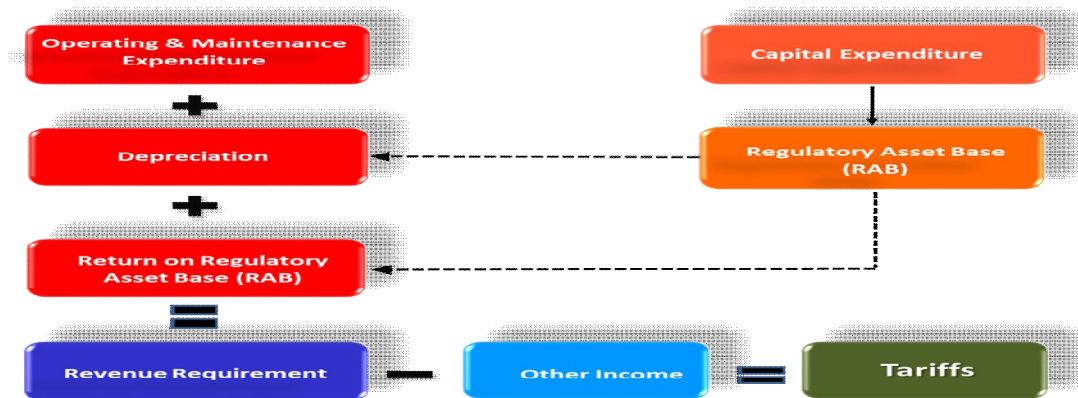
**Table 1: Proposed Timetable of Regulatory Activities for the Price Review**

	<b>Activity</b>	<b>Timeframe</b>
1	Publication of document “Information Requirements: Business Plan”.	October 2017
2	Publication of the document “Framework and Approach for the Price Review”.	November 2017
3	Submission of Draft Business Plan by WASA.	December 2017
4	Formal Letter to Shareholder (Government) seeking its initial views (input) on public policy considerations and investment priorities for the Sector.	December 2017
5	Release of consultative documents	February 2018 to March 2018
6	Stakeholder Information Day.	February 2018
7	Meeting with Shareholder (Government).	April 2018
8	Publication/Release of Draft Determination.	May 2018
9	Stakeholder Workshops in Port-of-Spain, Arima, Chaguanas, San Fernando, Tobago.	May 2018 June 2018
10	National Consultation on Draft Determination.	June 2018
11	Release of RIC’s Response to Stakeholder Comments on Draft Determination.	July 2018
12	Publication/Release of Final Determination.	July 2018

## 2. KEY ISSUES DISCUSSED WITHIN DOCUMENT

- Form of Price Control –
  - There are two major categories of price control under the broad price-cap approach:
    - Revenue cap approach; and
    - Price cap approach.
- Length of the Price Control Period.
- Quality and level of service that WASA is required to provide, inclusive of the Scheme used to set quality of service standards e.g. S Factor, Guaranteed Standards Scheme or performance monitoring.
- The approach to assessing expenditure and the establishment of a revenue requirement – the key consideration here is whether or not the RIC's use of the building blocks approach remains fit for purpose. The building blocks approach is shown in Figure 3.

**Figure 3 – Building-block Approach**



- Methods for incentivising the service provider, inclusive of efficiency carry over mechanism, and dealing with uncertainty, Z factors and interim determinations.
- Translating the revenue requirement into price controls, determination of the X factor.

- Cost pass-through mechanisms, Correction factors, treatment of contributed assets, determination resets, tariff rebalancing, cost allocation and tariff structures and side constraints and miscellaneous charges.

### **3. SPECIFIC CONSULTATION AREAS**

Below are the consultative questions which have been extracted from the main consultative document. The range of issues identified is not intended to be exhaustive and stakeholders are encouraged to identify any further issues that they consider should also be addressed. After receiving the responses, the RIC will then indicate how it intends to resolve the various issues.

#### **FORM OF REGULATION**

*The RIC welcomes comments on:*

- *the broad form of regulation most suited to regulating WASA;*
- *any other alternative regulatory models that stakeholders believe warrant consideration;*
- *the RIC'S preference to use a revenue cap for the initial regulatory period; and*
- *the length of the regulatory period.*

## QUALITY AND LEVELS OF SERVICE

*The RIC invites comments on the appropriateness of the use of a Performance Incentive Mechanism (S Factor) and Performance Reporting to supplement the Guaranteed Standards Scheme, as well as any other related issues.*

## ASSESSING EXPENDITURE & DETERMINING THE REVENUE REQUIREMENT

*The RIC invites comments on the matters, as well as other related issues, including:*

- *the factors the RIC should take into consideration in assessing WASA's forecasts of Opex;*
- *the factors the RIC should take into account when assessing the potential for efficiency improvements;*
- *the approach to benchmarking that will provide the most appropriate method for comparing WASA's performance;*
- *the appropriate approach for assessing the annual rate of efficiency improvements;*
- *the appropriate approach to monitoring WASA's performance;*
- *the factors the RIC should take into consideration in assessing WASA's forecasts of Capex; and*
- *the factors the RIC should take into account to ensure deliverability of the investment programme.*

*The RIC invites submissions/comments on:*

- *the most appropriate asset valuation method for determining the value of assets of WASA, as well as other issues which should be considered as part of the asset valuation process.*

*The RIC invites comments on:*



- *the method for including the new investment in the RAB; and*
- *whether capital expenditure should be included in the determination of revenues in the year that it is incurred.*

*The RIC invites comments on:*

- *the relative merits of the alternative depreciation profiles herein-discussed and the usefulness of utilizing the straight line method of depreciation.*

*The RIC invites comments on:*

- *the appropriateness of the methods for the calculation of the WACC and the determination of cost of equity by the CAPM.*

*The RIC invites comments on:*

- *the inclusion of a return on working capital in the revenue requirement.*

*The RIC invites comments on:*

- *the approach to assess the impact on the future financial viability of service providers.*

## **INCENTIVE MECHANISMS**

*The RIC invites comments on the discussed matters, as well as other related issues, including:*

- *whether an efficiency carryover mechanism should be applied;*
- *how the efficiency carryover mechanism should be designed;*
- *whether there should be limited pass throughs, although there may be scope for reopening of the determination where significant impact of financial viability can be shown;*
- *an appropriate materiality threshold; and*

- *whether there should be a phased programme for improving efficiency by establishing ex ante performance benchmarks.*

## **ESTABLISHING PRICE CONTROLS**

*The RIC seeks comments on:*

- *the circumstances under which significant changes in costs to the regulated firms may be passed through.*

*The RIC invites comments on:*

- *the proposal of using a correction factor in the rate control formula and on the appropriate means of dealing with any residual balances in the revenue requirement or capital and operating expenditure.*

*The RIC invites comments on:*

- *the treatment of contributed assets and capital subsidies.*

*The RIC invites comments on:*

- *the types of events that might trigger the “reset” of the price determination.*

*The RIC invites comments on:*

- *the appropriateness of side constraints and the circumstances under which they should be applied; and*
- *how service providers should take into account the interests of customers.*

*The RIC invites comments on the discussed matters, as well as on other related issues, including:*

- *any other tariff structure issues that the RIC should consider; and*
- *any other pricing principles that the RIC should have regard to in assessing proposed prices.*

*The RIC invites comments on:*

- *the best way to price miscellaneous services;*
- *the range of miscellaneous services to be included; and*
- *whether the introduction of new miscellaneous services be restricted to the commencement of each regulatory control period.*

This document is being released for consultation and the RIC can be contacted at the under-mentioned address:

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**Copies of this document are available from the RIC Information Centre or from our website at [www.ric.org.tt](http://www.ric.org.tt). Comments close at 4:00 p.m. on December 6, 2017.**