

# **The advantages of economic regulation.**

**Setting up, maintaining and advancing regulation of water and wastewater services in Europe**

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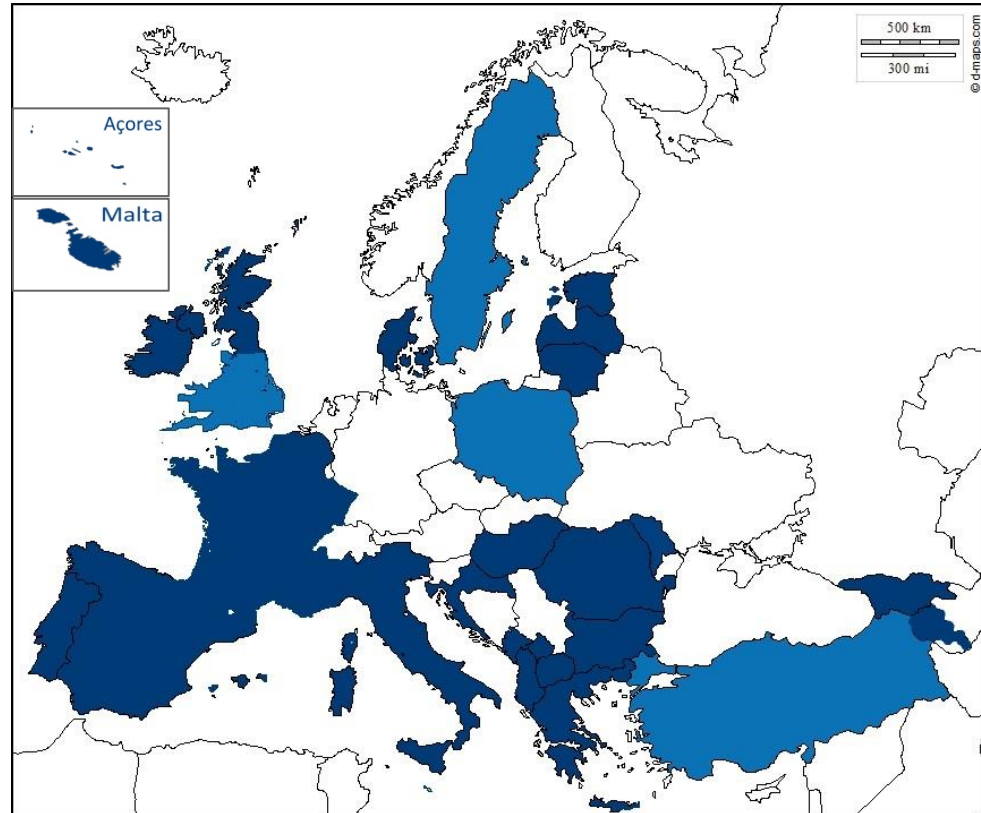
**Regulating Water  
11<sup>st</sup> July 2019  
Brussels, Belgium**

## HIGHLIGHTS:

- **WAREG Association**, established on 23 April 2014, based in Milan (Italy) by ARERA
- **26 Members, 5 Observers**
- **Representing:**
  - **18 EU Countries** (total 28)
  - **4 EU candidate Countries** (total 5)\*
  - **3 EU Eastern Neighbourhood Partner Countries** (total 6)\*\*

## REGULATORY FRAMEWORKS:

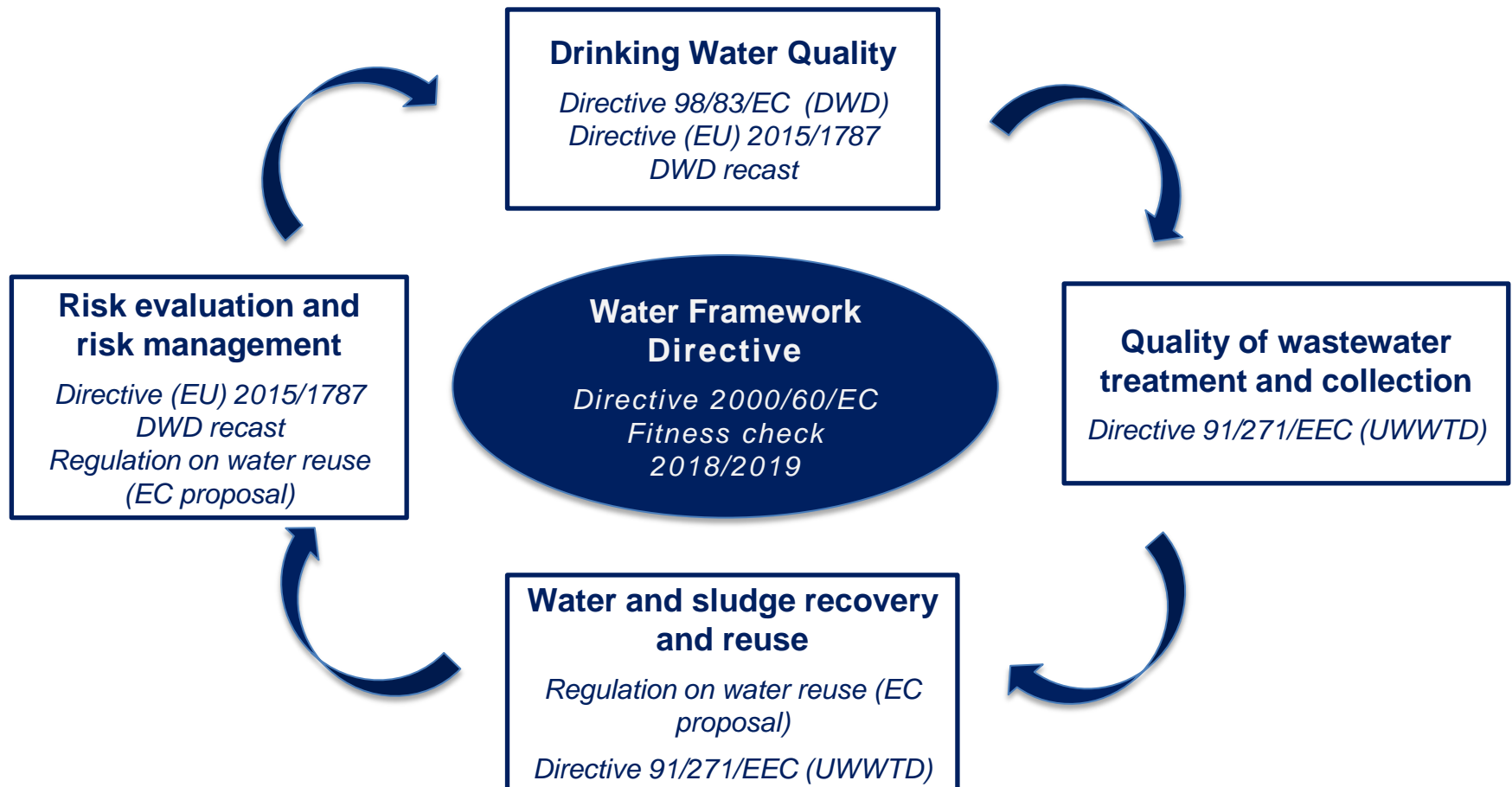
- Technical cooperation and institutional capacity building
- Dialogue with European Institutions & Stakeholders
- Best practices on regulation tools aimed at promoting:
  - stability & transparency of rules for operators
  - quality, efficiency and social affordability of services
  - innovation & environmental sustainability



\* EU Candidate countries: Alb. N.Maced. Montenegro, Serbia, Turkey

\*\* EU Eastern Neighbourhood: Armenia, Azerb. Belarus, Georgia, Mold. Ukr.

# THE FRAMEWORK OF EU WATER LEGISLATION



**Member States have to adopt directives into their national legislative framework, and Regulators have to define the right set of incentives and penalties to comply with it**

## REGULATION ON EU WATER FRAMEWORK – *A SECTOR NOT FULLY HARMONIZED*

The limited (or totally absent) reference to **economic regulation** into EU normative framework, both from a subjective point of view (WHO) and from an objective one (WHAT, HOW), has created some “**vulnus**” into normative compliance and implementation.

### Water Framework Directive

Necessity to detail **full cost recovery principle** in operational rules, in order to prevent different way of implementations in MS' national context.

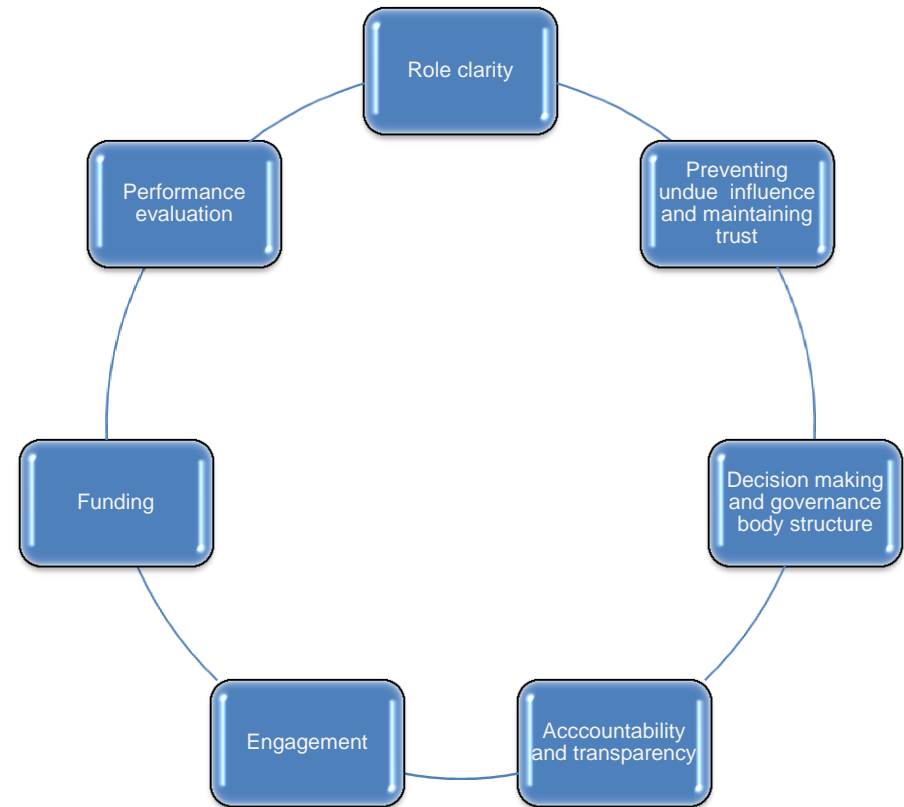
### Water and sludge recovery and reuse

No disposition concerning **who pay innovation in wastewater treatments** and **how to set tariff for water reuse** to agricultural and industrial users (necessity to define wastewater reuse positioning respect to water service chain and regulatory perimeter).

### Drinking Water Directive and generally EU normative

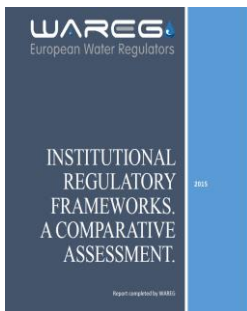
Opportunity to involve regulator networks, in order to improve impact cost estimations, also considering **users willingness to pay** concern, and to set a **reporting framework** (according to the amended art. 14).

# THE OECD PRINCIPLES WATER GOVERNANCE AND GOVERNANCE OF REGULATORS



# LOOKING FOR STANDARDS FOR AN EFFECTIVE REGULATION OF WATER SECTOR

A survey «to review some of the key institutional arrangements adopted in WAREG Members' jurisdictions»;



1. there is a **variety of coordination arrangements** between different levels of governance, from
2. all Regulatory Bodies recognize that **independent regulation** has a powerful impact over the water sector.
3. there is **no common definition of “regulatory independence”** and it can be self audited following three criteria
  - i. Nomination process and terms of the board
  - ii. Legal provisions on independence
  - iii. Autonomy and internal budget



**Safeguarding the independence of regulators**  
Insights from Europe's energy regulators on powers, resources, independence, accountability and transparency  
**CEER report**

Ref: C16-RBM-06-03  
13 December 2016

***The independence of National Regulatory Authorities***  
CEER White Paper series (paper # V) on the European Commission's Clean Energy Proposals  
**30 June 2017**

- **Power and enforcement** (without ex post external scrutiny)
- **Independence** (provided by law, board appointing rules, code of conduct, budgetary autonomy)
- **Accountability and Transparency** (only ex post and independent control on accounting, clear rule of consultation, public decision)

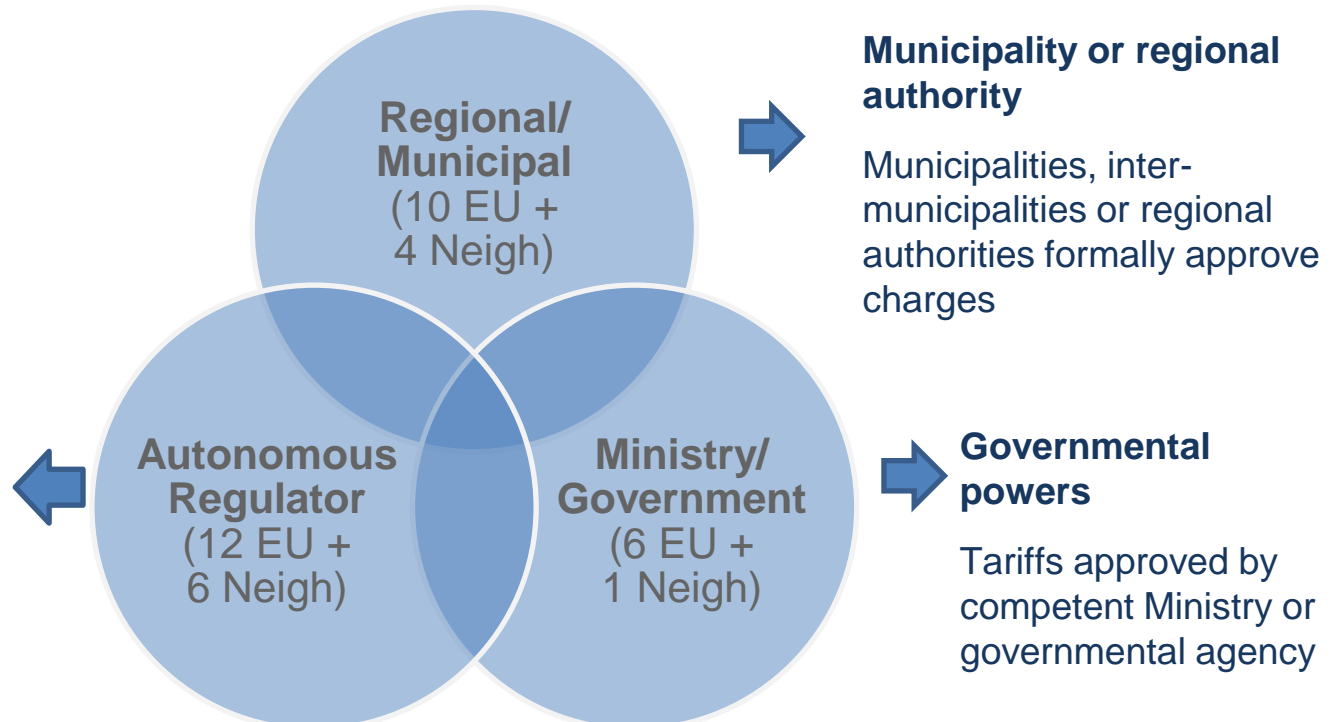
## REGULATORY FRAMEWORKS IN EU & NEIGHBOURING COUNTRIES

According to price-setting powers, 3 possible forms of institutional set-up:

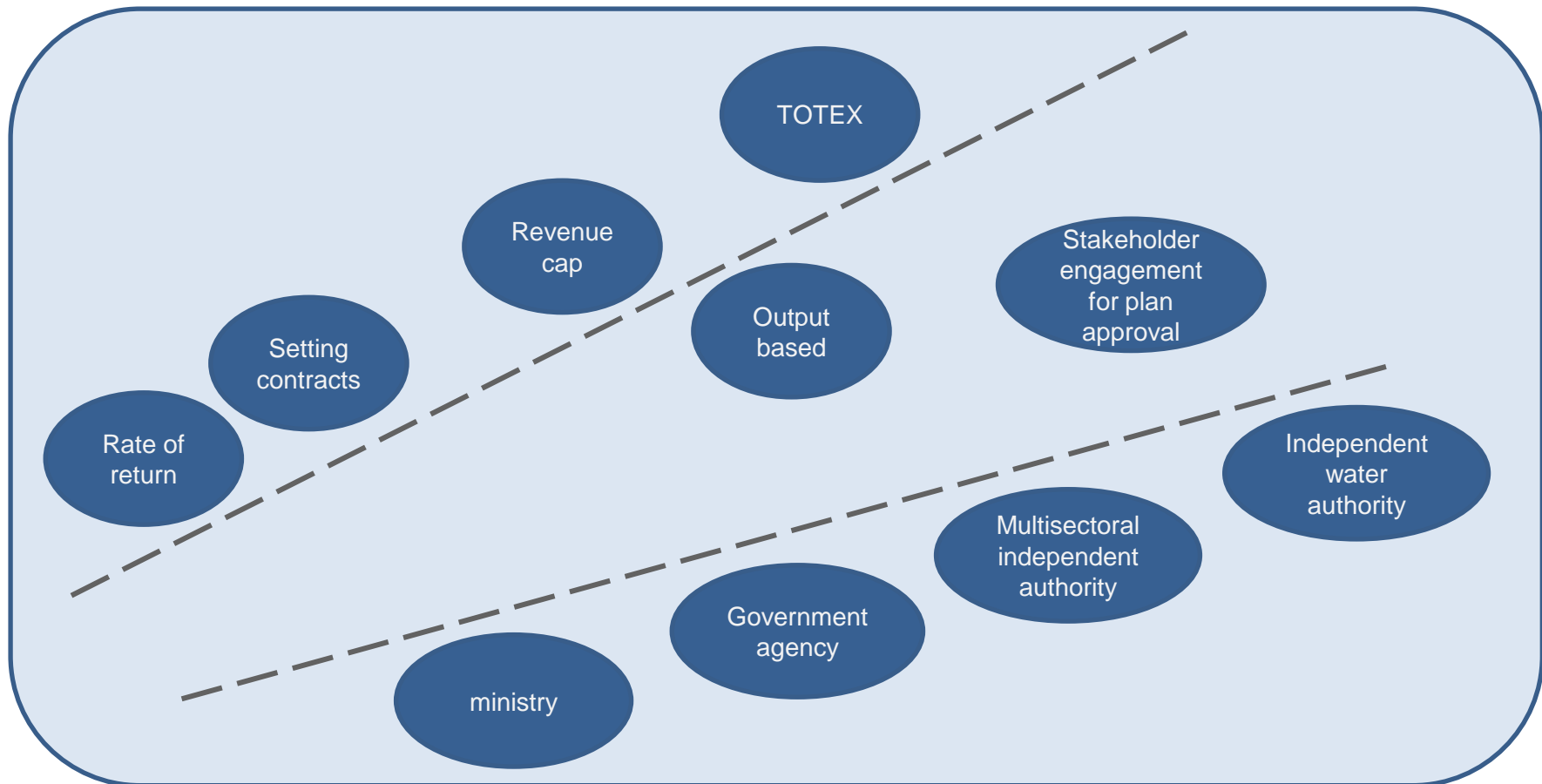
1. **Autonomus regulator** (12 in EU + 6 in neighbouring countries)
2. **Regional/ Municipal authority** (10 in EU + 4 in neighbouring countries)
3. **Ministry/Governmental agency** (6 in EU + 1 in neighbouring country)

### 1. Autonomous Regulator

Regulators can propose tariff methodology (not binding) or approve/reject costs proposed by water companies in tariffs



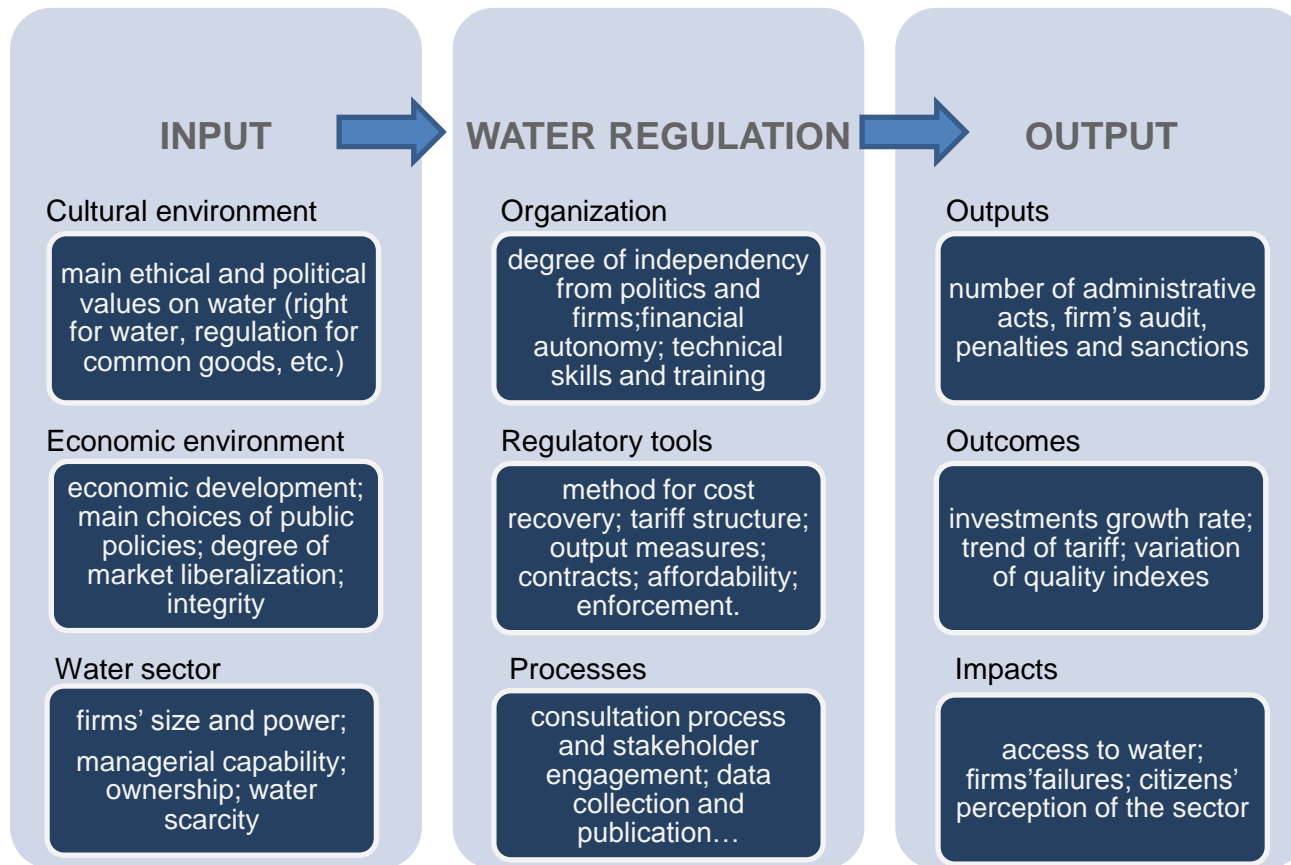
## THE «ONE SIZE FITS ALL» RULE MUST BE AVOIDED



**Economic context, political address, country culture and values, water sector features**

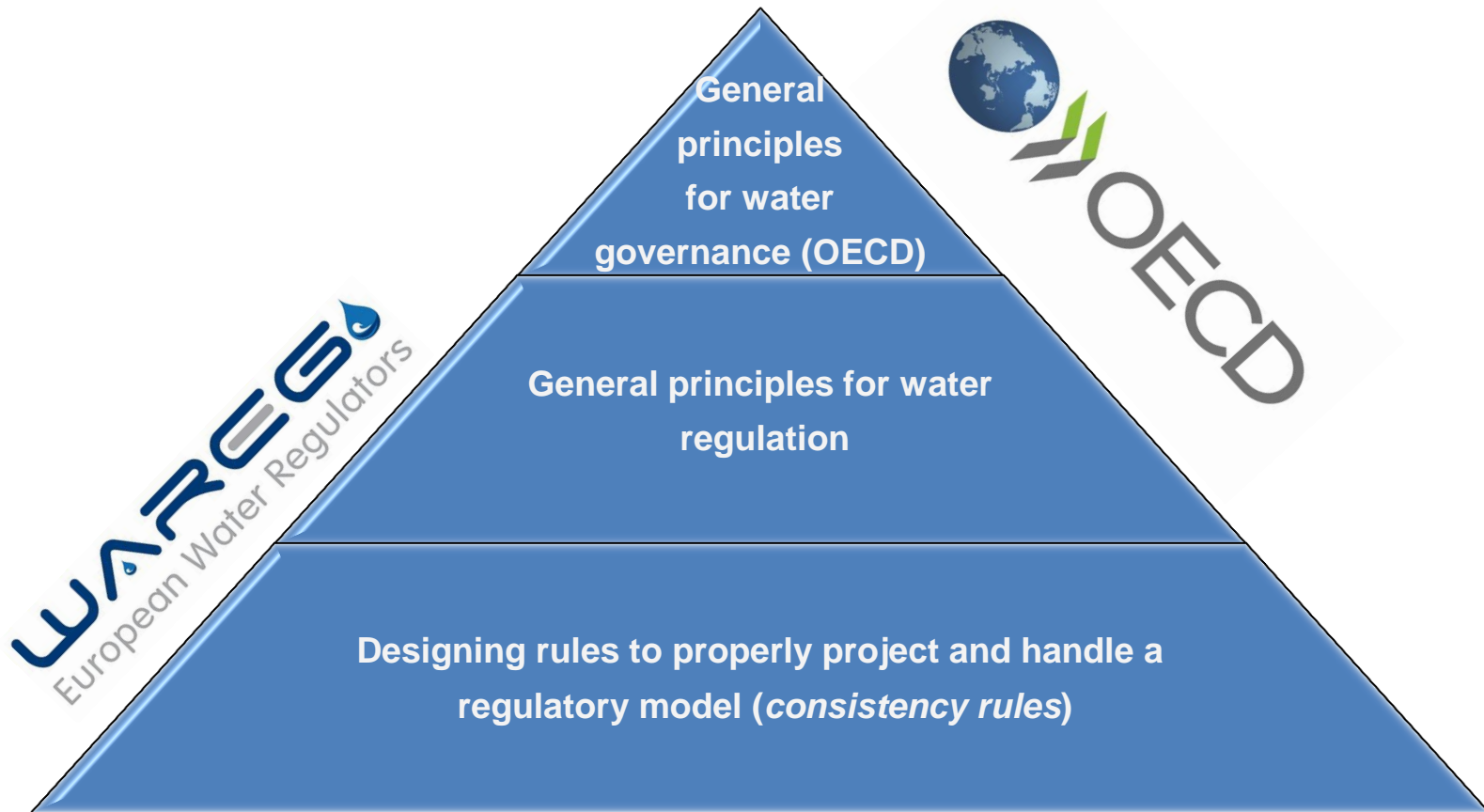


# A CONTINGENCY APPROACH FOR WATER REGULATION



*In organizational science, the contingency approach is followed to design a new structure or process, adapting its features to the external context (input) and to the targets which should be achieved (output).*

# GENERAL PRINCIPLES AND CONSISTENCY RULES



# A TIMELINE FOR A TASK FORCE ON REGULATION GUIDELINE

After this  
WAREG  
GA

- Data collection on institutional setting of WAREG members;
- Collection of positions of members on specific institutional approach (independency, budget autonomy, etc.)
- Identifying external variables (input) potentially affecting water regulation

Next GA in  
Budapest

- Presentation and discussion of the results obtained with the survey
- Agreement of a set of recommendations and rules

EFRWS

- Presentation of the final report and the decalogue