

# The advantages of economic regulation.

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

Andrea Guerrini
WAREG President and
Commissioner of ARERA

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

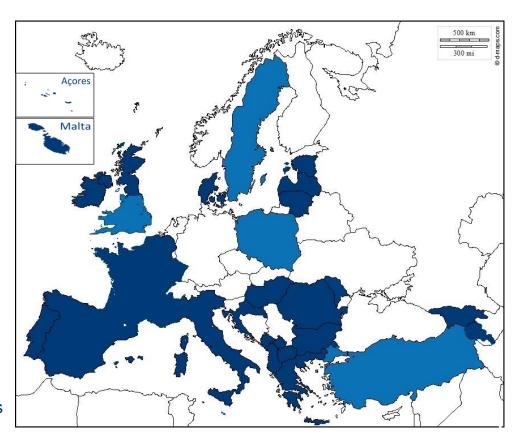


### **HIGHLIGHTS:**

- 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 Neighbourood 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



## **Drinking Water Quality**

Directive 98/83/EC (DWD)
Directive (EU) 2015/1787
DWD recast



# Risk evaluation and risk management

Directive (EU) 2015/1787 DWD recast Regulation on water reuse (EC proposal)

# Water Framework Directive

Directive 2000/60/EC Fitness check 2018/2019

# Quality of wastewater treatment and collection

Directive 91/271/EEC (UWWTD)



# Water and sludge recovery and reuse

Regulation on water reuse (EC proposal)

Directive 91/271/EEC (UWWTD)



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).

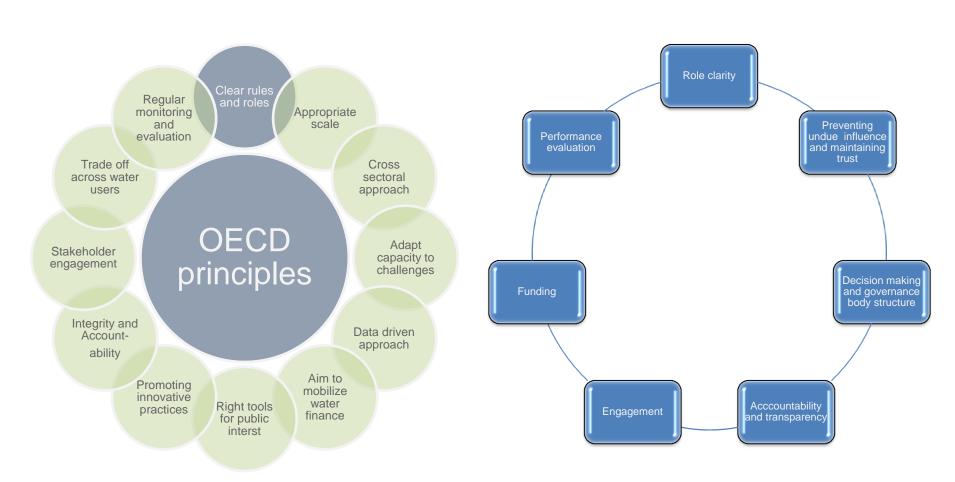
Drinking Water Directive and generally EU normative

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
- 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 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)



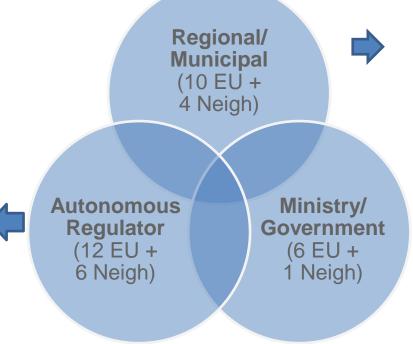
## REGULATORY FRAMEWORKS IN EU & NEIGHBOURING COUNTRIES

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



# Municipality or regional authority

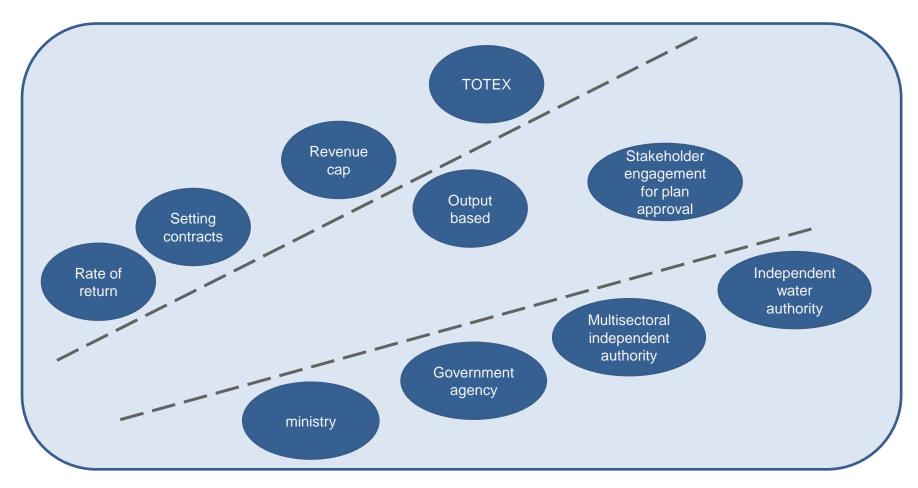
Municipalities, intermunicipalities or regional authorities formally approve charges

# Governmental powers

Tariffs approved by competent Ministry or governmental agency



# 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

#### **INPUT**

## Cultural environment

main ethical and political values on water (right for water, regulation for common goods, etc.)

#### Economic environment

economic development; main choices of public policies; degree of market liberalization; integrity

#### Water sector

firms' size and power; managerial capability; ownership; water scarcity

### WATER REGULATION

#### Organization

degree of independency from politics and firms;financial autonomy; technical skills and training

### Regulatory tools

method for cost recovery; tariff structure; output measures; contracts; affordability; enforcement.

#### **Processes**

consultation process and stakeholder engagement; data collection and publication...

## **OUTPUT**

#### Outputs

number of administrative acts, firm's audit, penalties and sanctions

#### **Outcomes**

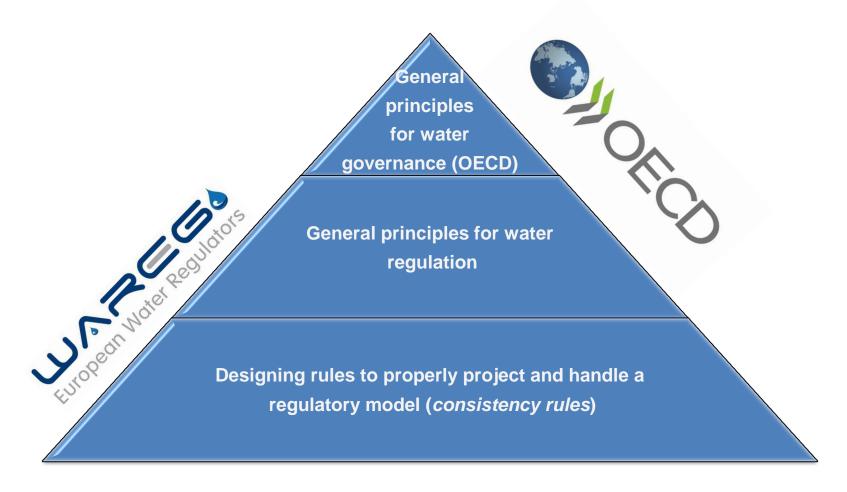
investments growth rate; trend of tariff; variation of quality indexes

### **Impacts**

access to water; firms'failures; citizens' perception of the sector 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



Budapest



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



 Presentation of the final report and the decalogue