



WATER AND WASTE REGULATORY OFFICE
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REPORT ON TARIFF DETERMINATION

**BY WWRO IN RESPECT OF
WATER AND WASTEWATER SERVICES**

FOR 2007 / 2008

28 September 2007

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1 INTRODUCTION

Water Supply service tariffs have been determined for all providers, on the basis of tariff applications submitted to WWRO in the first quarter of 2007, and a programme of consultation lasting several months. Particular regard has been paid in tariff setting to targets for performance improvement.

It is planned that this will be the last time that tariffs are set on an annual basis, and that in 2008 the industry will move to a system of multi-year tariffs based on a return on regulatory capital value. This will afford increased regulatory certainty for the service providers, and help to create an environment in which significantly increased capital investment can be achieved.

Figures for 2007 used in this report are notional full year figures at 2007 tariffs. Comparative figures for 2006, where available, are taken from the Operating, Financial and Customer Reporting system ("OFCR").

2 SERVICE TARIFFS APPROVED BY WWRO FOR 2007/ 2008

Service tariffs have been set for all Water Supply service providers, as follows:

1. PRISHTINA – PRISHTINË

Customers Category	Fixed Fee (EUR/month)	Variable Tariff for Water (EUR/m3)	Variable Tariff for Wastewater (EUR/m3)	Total Variable Tariff (EUR/m3)
Household Customers	1.0	0.25	0.05	0.30
Commercial/Industrial Customers	3.0	0.60	0.05	0.65
Institutional Customers	3.0	0.60	0.05	0.65

2. HIDROREGJIONI JUGOR – PRIZREN

Customers Category	Fixed Fee (EUR/month)	Variable Tariff for Water (EUR/m3)	Variable Tariff for Wastewater (EUR/m3)	Total Variable Tariff (EUR/m3)
Household Customers	1.0	0.19	0.05	0.24
Commercial/Industrial Customers	2.0	0.40	0.05	0.45
Institutional Customers	2.0	0.40	0.05	0.45

3. HIDRODRINI – PEJË

Customers Category	Fixed Fee (EUR/month)	Variable Tariff for Water (EUR/m3)	Variable Tariff for Wastewater (EUR/m3)	Total Variable Tariff (EUR/m3)
Household Customers	1.0	0.16	0.05	0.21
Commercial/Industrial Customers	2.0	0.41	0.05	0.46
Institutional Customers	2.0	0.41	0.05	0.46

4. UJËSJELLËSI REGIONAL – MITROVICË

Customers Category	Fixed Fee (EUR/month)	Variable Tariff for Water (EUR/m3)	Variable Tariff for Wastewater (EUR/m3)	Total Variable Tariff (EUR/m3)
Household Customers	1.0	0.26	0.05	0.31
Commercial/Industrial Customers	3.0	0.65	0.05	0.70
Institutional Customers	3.0	0.65	0.05	0.70

5. RADONIQI – GJAKOVË

Customers Category	Fixed Fee (EUR/month)	Variable Tariff for Water (EUR/m3)	Variable Tariff for Wastewater (EUR/m3)	Total Variable Tariff (EUR/m3)
Household Customers	1.0	0.25	0.05	0.25
Commercial/Industrial Customers	3.0	0.55	0.05	0.55
Institutional Customers	3.0	0.55	0.05	0.55

6. BIFURKACIONI – FERIZAJ

Customers Category	Fixed Fee (EUR/month)	Variable Tariff for Water (EUR/m3)	Variable Tariff for Wastewater (EUR/m3)	Total Variable Tariff (EUR/m3)
Household Customers	1.0	0.25	0.07	0.32
Commercial/Industrial Customers	3.0	0.60	0.10	0.70
Institutional Customers	3.0	0.60	0.10	0.70

7. HIDROMORAVA – GJILAN

Customers Category	Fixed Fee (EUR/month)	Variable Tariff for Water (EUR/m3)	Variable Tariff for Wastewater (EUR/m3)	Total Variable Tariff (EUR/m3)
Household Customers	1.0	0.25	0.05	0.30
Commercial/Industrial Customers	2.0	0.50	0.05	0.55
Institutional Customers	2.0	0.50	0.05	0.55

3 COMPARISON OF NEW TARIFFS WITH PREVIOUS TARIFFS

A comparison of new and previous tariffs is set out below. It will be noted that only in Prizren has a significant tariff increase been sanctioned, with a 9% increase for household customers and a 12.5% increase for Commercial and Institutional customers. There has been a small tariff adjustment in Peja, of 5% for Household customers, and 2.22% for Commercial and Institutional customers.

Customer category	New tariff € per m3	Previous tariff € per m3	Difference %
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PRISHTINA - PRISHTINE

Household	0.30	0.30	0.00%
Commercial	0.65	0.65	0.00%
Institutions	0.65	0.65	0.00%

HIDROREGJIONI JUGOR – PRIZREN

Household	0.24	0.22	9.09%
Commercial	0.45	0.40	12.50%
Institutions	0.45	0.40	12.50%

HIDRODRINI – PEJË

Household	0.21	0.20	5.00%
Commercial	0.46	0.45	2.22%
Institutions	0.46	0.45	2.22%

UJËSJELLËSI REGJIONAL – MITROVICË

Household	0.31	0.31	0.00%
Commercial	0.70	0.70	0.00%
Institutions	0.70	0.70	0.00%

RADONIQI – GJAKOVË

Household	0.30	0.25	20.00%
Commercial	0.60	0.55	9.09%
Institutions	0.60	0.55	9.09%

BIFURKACIONI – FERIZAJ

Household	0.32	0.32	0.00%
Commercial	0.70	0.70	0.00%
Institutions	0.70	0.70	0.00%

HIDROMORAVA – GJILAN

Household	0.30	0.30	0.00%
Commercial	0.55	0.55	0.00%
Institutions	0.55	0.55	0.00%

4 COMPARISON OF HOUSEHOLD WATER COSTS AT VARIOUS CONSUMPTION LEVELS

Household water costs for each water supply company are summarised below for a range of typical consumption patterns.

It will be seen that costs for 10 cubic meters per month range from € 3.10 in Peja to € 4.20 in Ferizaj. Costs for 40 cubic metres per month range from € 9.40 in Peja to € 13.80 in Ferizaj.

Monthly consumption	New tariff € per month	Previous tariff € per month	Difference %
PRISHTINA - PRISHTINE			
10 m3	4.00	4.00	0.00%
20 m3	7.00	7.00	0.00%
30 m3	10.00	10.00	0.00%
40 m3	13.00	13.00	0.00%
HIDROREGJIONI JUGOR – PRIZREN			
10 m3	3.40	3.00	13.33%
20 m3	5.80	5.00	16.00%
30 m3	8.20	7.00	17.14%
40 m3	10.60	9.00	17.78%
HIDRODRINI – PEJË			
10 m3	3.10	3.00	3.33%
20 m3	5.20	5.00	4.00%
30 m3	7.30	7.00	4.29%
40 m3	9.40	9.00	4.44%
UJËSJELLËSI REGJIONAL – MITROVICË			
10 m3	4.10	4.10	0.00%
20 m3	7.20	7.20	0.00%
30 m3	10.30	10.30	0.00%
40 m3	13.40	13.40	0.00%
RADONIQI – GJAKOVË			
10 m3	4.00	4.00	0.00%
20 m3	7.00	7.00	0.00%
30 m3	10.00	10.00	0.00%
40 m3	13.00	13.00	0.00%
BIFURKACIONI – FERIZAJ			
10 m3	4.20	4.20	0.00%
20 m3	7.40	7.40	0.00%
30 m3	10.60	10.60	0.00%
40 m3	13.80	13.80	0.00%
HIDROMORAVA – GJILAN			
10 m3	4.00	4.00	0.00%
20 m3	7.00	7.00	0.00%
30 m3	10.00	10.00	0.00%
40 m3	13.00	13.00	0.00%

5 KEY PERFORMANCE INDICATORS

In his preface to the Annual Performance Report for 2006, the Director of WWRO wrote: “Unacceptably high water losses and unacceptably low collection rates for the sector **remain to be absolutely the two biggest problems and present the main challenges for the water service providers.**” These two issues are therefore reviewed in this Section.

5.1 Non-revenue Water

The table below summarises improvements projected by the Water Supply companies in their NRW performance. Non-revenue water is projected to fall from 61.93% in 2006 to 60.44% in 2007, and from 1,272 litres per customer per day to 1,241 litres. This is a relatively marginal improvement, and WWRO expects to see a significantly better performance than planned.

Kosovo Water Supply Sector	2007	2006
Water production m3	145,627,570	138,836,358
Water billed m3		
Household	45,379,987	
Commercial	6,126,792	
Institutional	6,104,036	
Total Water Billed	57,610,815	52,854,327
Non-revenue Water m3	88,016,755	85,982,031
Non-revenue Water - %	60.44%	61.93%
Customers		
Household	171,714	
Commercial	20,582	
Institutional	1,970	
Total Customers	194,266	185,164
Non-revenue Water - Litres per customer per day	1,241	1,272
Billed Water - Litres per customer per day		
Household	724	
Commercial	816	
Institutional	8,489	
Total Water Billed	812	782

5.2 Collection Efficiency

The table below summarises the collection efficiency plans of the service providers.

In contrast to the NRW plans, these projections appear extremely ambitious, particularly the increase from 47% collection to 69% in the case of household customers.

Kosovo Water Supply Sector	2007	2006	Change
	€	€	%
Billing Household	14,149,517	12,248,683	15.52%
Billing Commercial	4,110,307	4,240,321	(3.07%)
Billing Institutional	3,295,058	2,495,502	32.04%
Total Billing	21,554,882	18,984,506	13.54%
Collection Household	9,778,458	5,813,420	68.20%
Collection Commercial	3,084,937	3,135,065	(1.60%)
Collection Institutional	2,942,650	2,002,997	46.91%
Total Collection	15,806,045	10,951,482	44.33%
Collection percent Household	69%	47%	45.61%
Collection percent Commercial	75%	74%	1.51%
Collection percent Institutional	89%	80%	11.26%
Collection percent total	73%	58%	27.12%

6 OPERATING EXPENSES

Kosovo Water Supply Sector	2007	2006
Operating Expenses	12,652,714	12,088,868
Per m3 of production	0.087	0.087
Per m3 of water sold, excluding Bulk Treated Water	0.235	0.244

The service providers plan an increase in Operating Expenses of only 4.7%, all of which is accounted for by an increase in volume. Operating Expenses are not therefore reviewed in detail.

7 CAPITAL EXPENDITURE

Kosovo Water Supply Sector	2007	2006
	€	€
Capital Expenditure	3,818,610	1,187,873

Capital Expenditure is projected at € 3,818,610 by the sector for 2007. Unfortunately the comparative figure for 2006 as reported by the Service Providers is incomplete.

8 FINANCIAL SUMMARY

The table below summarises the Cash Flow of the Kosovo water sector for 2006, and the projected Cash Flow for 2007 on the basis of a full financial year at the 2007 tariffs.

	2007 Approval	2006 Actual	Change
	€	€	%
Billings			
Household	14,149,517	12,248,683	15.52%
Commercial	4,110,307	4,240,321	(3.07%)
Institutions	3,295,058	2,495,502	32.04%
Total	21,554,882	18,984,506	13.54%
Sale of Bulk Water	621,717	568,134	9.43%
Collections			
Household	9,778,458	5,813,420	68.20%
Commercial	3,084,937	3,135,065	(1.60%)
Institutions	2,942,650	2,002,997	46.91%
Total	15,806,045	10,951,482	44.33%
Collections for Bulk Water	0	0	
Operating Costs	(12,652,714)	(12,088,868)	(4.66%)
Cash surplus before Capital Expenditure			
Household	122,597		
Commercial	1,781,291		
Institutions	1,643,846		
Bulk Water	(394,403)		
Total	3,153,331	(1,137,386)	377.24%
Capital Expenditure	(3,818,610)	(1,187,873)	(221.47%)
Subsidies and Grants	455,000	534,531	(14.88%)
Net cash surplus/(deficit)	(210,279)	(1,790,728)	88.26%
Key Performance Indicators			
Billing Efficiency	39.56%	38.07%	3.92%
Collection Efficiency	71.27%	56.01%	27.25%
Overall Commercial Efficiency	28.20%	21.32%	32.23%

8.1 Billings

The sector is projecting an overall increase in Billings of 13.54%, mainly as the result of a volume increase of nine percent.

8.2 Collections

The projected increase in Collections, at over 44 percent, is considered optimistic, as discussed in Section 5.2 above. Total reported Collections in the first six months of 2007, at € 5,780,015, (before the application of tariff increases), represent only 57 percent of Billings. This is only a marginal increase over the 56 percent achieved in 2006, and well below the projection of over 71 percent.

8.3 Cash surplus before Capital Expenditure

The projected cash surplus before Capital Expenditure is € 3,153,331, compared to a deficit of € 1,137,386 in 2006; in view of the current cash performance, this seems unlikely to be achieved.

The projected cash surplus has been analysed between customer categories, on the basis of deducting average costs per cubic metre from cash receipts. The analysis reveals very significant cross-subsidies, with the cash margin on Billings being as follows:

- Household customers: 0.87%
- Commercial customers: 43.34%
- Institutional customers: 49.89%.

It is a WWRO policy objective to eliminate cross-subsidy in the medium term.

9 REGULATORY CONCERNS

WWRO has several key concerns which it will be monitoring closely. These include:

- Achievement on the principal performance measures of non-revenue water and collection efficiency;
- Fulfilment of capital expenditure plans;
- Progress towards 100% customer metering;
- Quality of tariff submissions from service providers, including the provision of independently audited accounts and prompt attention to WWRO queries.