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WATER AND WASTE REGULATORY OFFICE



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Water Supply and Wastewater Services

REGULATORY ACCOUNTING GUIDELINES

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PREAMBLE

This document of the Water Supply and Wastewater Regulatory Accounting Guidelines sets out the WWRO's initial information requirements to meet its tariff determination obligations based upon the Water Supply and Wastewater Tariff Procedures.

These guidelines are based upon the information needs of the regulator for tariff setting purposes and upon good regulatory practice adopted in many other parts of the world but adapted to meet the specific circumstances and operating environment within Kosovo. In certain areas these guidelines and reporting requirements include definitions and processes documented in guidelines and procedures of other reputable regulatory agencies, notably the Water Services Regulatory Authority (Ofwat), the water industry regulator in England and Wales.

The regulatory accounting guidelines will be updated and amended as required by the WWRO to take account of any changes to informational requirements and issues that may arise from the preparation of regulatory accounts by the water companies.

1. DEFINITIONS

Adopted assets: Non-current financed by a developer or user where the ownership is transferred to the utility, the value of which is not added to the regulatory asset base.

Business activities: The activities which can be pursued collectively in order to provide water supply and wastewater services. The individually identified business activities are: customer services, scientific services and the cost of regulation. General and support activities are identified collectively as a group.

Business plan: A submission to the WWRO setting out the planned activities and associated costs (capital and operating) that form part of the tariff review submissions of the RWCs.

Capital contributions: Finance provided as a contribution towards an investment by a third party, e.g. infrastructure charges and contributions for activities such as pipeline diversions.

Capital maintenance: Planned work carried out by the Regional Water Companies to replace and repair water supply and wastewater assets to provide a base service to customers.

Core activities: Activities subject to regulation by the WWRO and include the provision of water supply and wastewater services to the customers of the RWCs.

Current cost accounting: A method of accounting originally designed to deal with the problem of showing the effect of inflation on business profits. Instead of showing assets at their historic cost (i.e. their original purchase price), less depreciation where appropriate, the assets are shown at their current cost (replacement cost) at the time of producing the accounts. This method of accounting is used in the water industry because of the extensive nature of capital assets and the fact that historic costs do not reflect the asset's true worth.

Current cost depreciation: Depreciation calculated in accordance with current cost accounting methods.

Direct costs: The costs directly attributable to each of the individually identified service and business activities and to general and support activities as a group. Such costs should include apportionments, where such apportionments are necessitated by operational considerations (for example where mobile gangs are used to operate both wastewater and water supply facilities, or separated costs for sewage and sludge treatment are not identifiable for small wastewater treatment plants).

Enhanced service levels: Permanent, identifiable and measurable improvements in service levels that are above the current base level.

Enhancement: To enhance and grow the asset base through enhanced service levels and/or system expansion.

Functional expenditure: The direct costs incurred in the provision of each of the individually identified service and business activities, plus in each case an allocation of the direct costs incurred in the provision of general and support activities.

Grants: Finance provided for investment or the provision of services for which no repayment is required. Infrastructure investment financed by grants is neither added to the infrastructure renewals charge nor the regulatory asset base.

Indexed, indexing, indexation: Costs and revenues adjusted for inflation in accordance with inflation indices

Infrastructure assets: Those assets (mainly underground assets) which do not have a finite life and which, if appropriately maintained, will be capable of continuing to provide a predetermined level of service to customers indefinitely.

Infrastructure renewal accrual/prepayment: the difference between provisions for infrastructure renewals and actual expenditure that is accumulated in the balance sheet as a cumulative accrual or prepayment as appropriate.

Infrastructure renewals charge: An annual accounting provision for expenditure on the renewal of infrastructure (i.e. mainly underground) assets charged to the regulatory profit and loss account.

Initial asset value: The value attached to the opening RAB as at 1 January 2009 based upon a set charge per connection (water and wastewater).

Irrecoverable debts: An allowance for payments due to the Regional Water Companies for which there is no reasonable prospect for receiving payment and which would effectively qualify to be written off in accordance with conventional accounting practices.

Non-core: Activities not subject to regulation by the WWRO, e.g. hire of construction equipment to third parties, with exception of bulk water supply to third parties, which although regulated by WWRO is considered as a non-core activity.

Non-infrastructure assets: Those assets (mainly above ground) which have a finite life and so are depreciated over that life and may be replaced at the end of that life.

Operating costs: Direct and indirect operating costs related to providing the service including: labour; energy; chemicals; consumable materials; overheads; non-recoverable taxes and other recurrent expenditure.

Regulatory accounts: The reporting of financial information in accordance with these guidelines.

Regulatory asset base: The capital base used in setting price limits. This is the value of the Regional Water Companies' assets which earn a return on investment. It represents the opening value of the investments and net new capital expenditure. The capital value is calculated after current cost depreciation.

Return on capital: a fair return on the regulatory asset base represented as the annual income and capital growth from an investment, expressed as a percentage of the original investment.

Service activities: The individually identified activities which must be pursued separately in order to provide water supply and wastewater services, namely: water resources and treatment, water distribution, wastewater collection, wastewater treatment, and sludge treatment and disposal.

Service charges: Water: Payments to the Ministry of Environment for water abstraction and payments to third parties for bulk supplies, and Wastewater: Payments to the Ministry of Environment for discharge consents.

Service costs: For each service, the sum of the functional costs for each of the service activities, plus the sum of the appropriate portions of the functional expenditures of the individually identified business activities, plus the appropriate portions of the costs of rates, doubtful debts, exceptional items, the write-off of intangible assets, and of general & support costs. In the case of the regional water companies, this will necessitate the allocation or apportionment of the functional expenditures associated with customer services, scientific services, and the cost of regulation, and the allocation or apportionment of the costs of rates, doubtful debts, exceptional items, the write-off of intangible assets, and of general & support costs.

Services: Water supply and wastewater services

Supply/ demand balance: The gap between supply and demand, either through the demand from new customers or increased demand from existing customers, for which additional investment is required to ensure that the demand for services is satisfied.

Weighted average cost of capital (WACC): The weighted average of debt interest and equity investor expectations expressed as a percentage return on total capital.

2. GENERAL CONCEPTS

2.1 Regulatory accounting guidelines

2.1.1 Conventional accounting rules based upon historic costs and conventional depreciation methods are recognised as a legitimate method of financial reporting but have a variety of limitations, in particular in regard to the return on capital earned and real depreciation in capital intensive industries with long asset lives such as the water industry. In the presence of inflation these limitations lead to:

- Understated asset values
- Overstated profit measures, and consequently
- Overstated returns on capital and distorted measures of total costs which persist even if inflation falls to zero.

Other failings in the conventional accounting rules with respect to utility services relate to the valuation of the business when financed by grants or 'gifted assets' leading to:

- Depreciation provisions and returns on capital passed through to tariffs on assets not financed by the utility, and consequently
- Tariffs higher than they would otherwise need to be if the utility is only to be rewarded for its own financial investments.

2.1.2 Regulatory accounting also recognises the different approach that regulators may take to certain items such as asset valuation compared to the approach taken in the financial statements following conventional accounting rules.

2.1.3 Regulatory accounting comprises a reassessment of the conventional accounting structures designed to overcome the above failings. It is not an alternative to the established accounting regime but rather seeks additional information and further details than those offered by the existing financial reporting outputs.

2.1.4 In addition, regulatory accounting seeks to determine the true income and costs of water supply and wastewater service provision by:

- The removal of the costs and revenues associated with non-core activities (if any) e.g. the hiring out of construction equipment to private concerns;
- Separation of costs relating to water supply from wastewater service;
- Separately categorising capital investment by purpose (capital maintenance and enhancement, the latter further subdivided into the sub-categories of: improved quality, improved level of service and supply/demand balance).
- Developing an alternative method of passing through the costs of capital maintenance that are reflective of the real costs of asset maintenance rather than depreciation provisions (infrastructure renewals accounting).

2.1.5 Although regulatory accounting has a number of specific differences from conventional accounting, the rules that are applied in preparing the regulatory accounts (unless stated otherwise in this document) should be the same as applied in conventional accounting. The basis principles of accounting (such as the accruals concept) should also be followed except where specifically indicated otherwise.

2.1.6 The figures to be used in the regulatory accounts will either derive directly from the underlying accounting records of the company, or will be based on rules and calculations described in this document. All figures in the regulatory accounts should therefore be traceable back to underlying figures in the company's accounting records, or to calculations following the guidance in this document. Even in areas where the information required for regulatory accounting purposes differs from that held in underlying accounting records for statutory accounting purposes (e.g. asset valuation and depreciation) significant inputs to these calculations should be traceable back to the company's accounting records.

2.2 Additional information

2.2.1 These regulatory accounting guidelines set out the minimum information required to meet the needs of the regulator. Where companies believe that providing additional information or analysis of costs will assist in the understanding of information that has been provided then they should do so.

2.3 Reporting

2.3.1 The regulatory accounting principles and methods in these regulatory accounting guidelines will apply to both:

- **Regulatory Accounts** – the historical data reported to the regulator to allow the regulator to monitor outcomes achieved against assumptions used at the time of setting price controls and to assess the level of performance of the companies in each of their key activities; and
- **Projections** – particularly the regulatory business plan submissions to the regulator for the purposes of assessing future expenditure requirements and thus determining appropriate tariffs.

2.3.2 In addition WWRO may require accounting information at other points in time and, in order to be consistent with the information received in the regulatory accounting and cost projections provided to the regulator, these other information requirements should also follow the principles and methods set out in this guidance.

3. ACTIVITIES

3.1 Separation of core and non-core activities

3.1.1 All income and expenditure, including capital investment, operational costs, overheads, cost of capital and non-cash expenditure items for non-core activities should be separately identified from the core activities of water and wastewater. Core activities only shall be included in the regulatory accounts. Income, costs, assets and liabilities relating to non-core activities shall be shown separately.

3.1.2 Examples illustrating the difference between core and non-core activities for the provision of water supply services are provided in Table 1 below. Similar principles should be followed to distinguish between core and non-core activities for wastewater.

Table 1 – Core / non-core activities

Activity	Core activities	Non-core activities
Water abstraction	The abstraction of water for treatment and delivery into the piped water network	The abstraction of water for other purposes such as irrigation or bulk (unregulated) sales to other users.
Water treatment	The treatment of water prior to its delivery into the piped water network for use by the customers within the service providers' defined service areas.	The treatment of water to be exported to another service provider.
Water storage	The storage of treated and untreated water prior to ultimate delivery to the piped water network for use by the customers within the service providers' defined service areas.	The storage of treated and untreated water prior to export to another service provider.
Water transmission and distribution	The transmission and distribution of water within the network.	The transmission and distribution of water to be exported to other service providers and for bulk (unregulated) sales.
House connections	The installation of new and repair of existing house connections within the defined service areas	Commercial unregulated services to customers, e.g. repairs to plumbing downstream of the point of water sales (meter).
Customer services	Meter reading, billing and revenue collection; public awareness and advertising campaigns insofar as they relate to the piped water system, etc.	Customer service activities for unregulated services.
Other activities		Commercial unregulated activities, e.g. hire of construction equipment.
Overheads	Pro-rata the overhead activities associated with the core-activities	All other overhead activities

3.1.3 Where resources are shared between core and non-core activities an appropriate apportionment of the costs shall be made between water supply, wastewater and non-core activities in the regulatory accounts in accordance with the guidance in section 4.12.

3.1.4 Similarly the values of assets and liabilities, shall be apportioned between water supply, wastewater and non-core activities in the regulatory accounts.

3.1.5 Any activity, cost or asset that cannot easily be defined by the service provider as either core or non-core shall be referred to WWRO for clarification.

4. INCOME AND OPERATING COSTS (INCLUDING CAPITAL MAINTENANCE)

4.1 General

4.1.1 WWRO requires an appropriate analysis of operating costs for a number of purposes including:

- Determining appropriate tariff allowances for the water supply and wastewater activities of each company;
- Monitoring performance against assumptions made at the time tariffs were determined;
- Assessing comparative performance between companies for the key activities associated with the provision of water supply and wastewater services; and
- Monitoring the financial health of the regional water companies and their ability to continue financing the services they provide.

4.1.2 Operating costs are therefore required to be provided by the key service activities and main cost headings identified below. Where significant costs are provided under the heading “other” such as “Other direct costs” then a separate breakdown of these costs should also be provided.

4.1.3 A more complete detailing of the items to be included under each heading is provided in Annex 5, and a template for reporting income/expenditure is shown at Annex 1.

4.2 Income

4.2.1 Income should be stated as the amount due (excluding VAT) from customers in respect of the water supply and wastewater services provided during the year. The amounts due in respect of water and wastewater should be separately shown.

4.2.2 Any income received for other activities (for example income from bulk water supplies to third parties) should be shown as non-core income.

4.3 Operating cost grants and subsidies

4.3.1 Where grants or subsidies are received against operating activities those should **not** be netted off against the operating cost item. This will ensure that operating cost performance for the respective activities can be monitored over time in a meaningful manner even if the level of grant or subsidy varies. It will also help to ensure that operating costs between companies (which may be receiving different levels of grants or subsidies) are more comparable.

4.3.2 The grants or subsidies received in respect of operating costs should be shown as a separate income amount. Companies should provide a separate analysis of the operating cost grants or subsidies received providing details of each amount received and the activity or cost line which it relates to.

4.4 Analysis of operating costs for individual activities

4.4.1 The operating costs should be analysed under the headings listed in sections 4.5 to section 4.13 with the direct costs of the key activities of each business shown separately.

4.4.2 Companies should identify all the costs of general and support activities within the separate activity as defined.

4.5 Service activities - water supply

4.5.1 Water resources and treatment: All direct costs associated with the abstraction, conveyance and treatment of raw water, including routine maintenance. Include the cost of bulk water supplies purchased, but exclude the functional costs of bulk water supplied to third parties and of non-potable water.

4.5.2 Distribution of treated water: All direct costs associated with the pumping, storage and conveyance of treated water, including the operation, control and monitoring of the distribution system, including routine maintenance. Where distribution employees are employed on work related to tariff matters, and charging and billing enquiries, they should be charged to customer services.

4.5.3 Where pumps serve a dual abstraction/distribution function, an allocation of costs to each function should be made. The basis on which such allocation has been made should be explained.

4.6 Service activities - wastewater

4.6.1 Wastewater collection: Include all direct costs associated with wastewater collection, including agency costs and routine maintenance. Exclude terminal pumping costs (i.e. costs incurred in pumping to treatment works).

4.6.2 Wastewater treatment: Include all direct costs associated with wastewater treatment, including terminal pumping costs and routine maintenance.

4.6.3 Sludge treatment and disposal: Include all direct costs associated with sludge treatment and disposal, including routine maintenance.

4.7 Direct cost headings within service activities

4.7.1 For each of the above activities costs should be analysed under the following headings as set out in Annex 1:

4.7.2 Service charges: (i) Water: payments to Ministry of Environment for water abstraction and to third parties for bulk supplies of water purchased, and (ii) Wastewater: payments to Ministry of Environment for discharge consents.

4.7.3 Energy costs: All energy costs directly attributable to identified service activities but excluding energy used for transport which are included in Fuel costs and with the provision of energy to depots and offices, which are included in other direct costs if directly associated with a particular activity or other business costs if not.

4.7.4 Fuel Costs: Costs of fuel used for transport.

4.7.5 Staff costs: The gross salaries and wages of all employees within the relevant activity, including payments resulting from bonus and profit-related payment schemes, employers insurance contributions, unfunded pension liabilities, sick pay, sickness benefits, private health insurance, retirement awards, death in service benefits, paid leave, subsistence travel and training expenses. Where staff work across different activities their costs should be apportioned between the activities, preferably through the use of timesheets or some other method of directly recording the time spent on particular activities.

4.7.6 Materials and consumables: All materials and consumables that are not in hired and contracted services. This category of cost includes equipment (such as small tools and clothing), provisions, tarmac and backfill materials, but excludes all items capitalised or included within infrastructure renewals expenditure.

4.7.7 Contracted services: All hired and contracted equipment and services. Hired services include the hire of machinery, office and general equipment, and transport. Contracted services include all contracted labour; and professional advice such as lawyers and consultants.

4.7.8 Maintenance charges: Costs of maintaining non-infrastructure assets associated with each activity. Excludes costs of maintaining infrastructure assets which are included under the infrastructure maintenance charge.

4.7.9 Other direct costs: Any other operating costs associated with each of the activities, but excluding interest and taxation. Includes costs associated with the provision of depots and offices, and insurance premiums.

4.8 Indirect costs - Business activities

4.8.1 The indirect costs of business activities should be apportioned between water supply, wastewater and non-core activities service activities.

- Customer services: Include customer accounting, the reading of meters, debt recovery and the costs of disconnection, customer enquiries relating to tariff matters and charging/billing, and complaints handling. The cost of billing services purchased should be

included. The costs of such services provided for third parties should be included as a non core activity.

- Scientific services: Include the costs of scientific and laboratory services, and of the monitoring of quality. The cost of such services purchased from third parties should be included. The costs of such services provided for third parties should be included as a non core activity.
- Cost of regulation: Include all incremental managerial costs of regulation, licence fees payable to WWRO in respect of regulation and associated costs incurred in the preparation of submissions to, and liaison with, regulators.
- General and support activities: include all centrally provided services, except for any items specifically covered under the individually identified activities. The following services should be included:
 - Administrative services (including salaries of administration staff)
 - Personnel and management services (including salaries of directors and board members)
 - Financial services
 - Legal and property management services
 - Research and development
 - Policy determination, implementation and monitoring
 - Audit services
 - Public and employee relations services
 - Data processing facilities
 - Planning liaison
 - Vehicle and plant (including hired vehicles and plant, and leased company cars)
 - Electrical and mechanical maintenance facilities
 - Land and property maintenance
 - Storage of materials - operational and technical support
 - General and support buildings

4.8.2 These indirect costs shall be reported for the purposes of the 2012-2014 business plan and tariff review in the same cost categories as employed for the direct costs with the exception of service charges (which do not qualify as indirect costs). For future tariff reviews the costs shall be reported in accordance with the cost categories described above, i.e. 'Customer Services', 'Scientific services', 'Cost of regulation', etc.

4.9 Indirect costs - Other costs

4.9.1 Bad debts: Include the costs of provision for all customer debts (excluding VAT) that are greater than one year old as set out in section 4.13 below, together with specific bad debts less than one year old. Excludes the costs of debt recovery which are included under customer services.

4.9.2 Value added tax charged against bad debts that are payable to the Government of Kosovo and cannot be refunded until such time that the debts can officially be written off in accordance with Government taxation rules.

4.10 Taxes and dividends

4.10.1 General and business taxes for water supply and wastewater services.

4.10.2 Dividends paid to shareholders out of generated profits.

4.11 Non-core activities

Include the income and costs of providing services to third parties including the provision of bulk supplies of raw or treated water supplied to other companies, the cost of producing and delivering non-potable water, the cost of treating and disposing of imported sewage and sludge, the cost of water mains diversion and all rechargeable works. Also include under non-core activities the income and costs associated with other activities not related to the core activities such as income received from use of water company assets for third party construction activities. If the costs associated with these non-core activities cannot be directly determined a reasonable apportionment from the costs of the appointed activity providing the service should be made.

4.12 Allocations and apportionments

- 4.12.1 Wherever possible costs, income, assets and liabilities should be directly allocated to the relevant service activity or cost centre.
- 4.12.2 If it is not possible to directly allocate costs companies will need to apportion costs. The basis of apportionment should as fairly as possible reflect what cost centre causes the cost to be incurred or is using the asset. The WWRO will not expect to impose any particular apportionment methodologies on the water companies, but expect to see that the methods applied are reasonable and may instruct a company to change if the WWRO believes the method applied is not reasonable.
- 4.12.3 For each cost item that requires apportionment rather than direct allocation, the basis of apportionment shall be stated in the accounts.
- 4.12.4 If a company wishes to change the basis of allocation or apportionment, it shall seek approval from WWRO for making the change. To obtain approval the company shall provide details of the proposed change, the reasons for requesting the change and the impact of the change on the allocations/apportionment.

4.13 Customer debts

- 4.13.1 The accounts of all the regional water companies contain large outstanding amounts that have been invoiced to customers but not paid. Many of these amounts are significantly more than one year overdue. Although there may be reasons why such outstanding debts are maintained in the statutory accounts, for regulatory accounting purposes WWRO does not consider it appropriate to maintain such balances indefinitely when there is little prospect of their recovery.
- 4.13.2 For regulatory accounting and tariff calculation purposes WWRO therefore regards all customer debts greater than one year old as irrecoverable, and rules that they should be written off. This means that regulatory accounts at the end of each year will only contain customer debts that relate to the year which has just ended.
- 4.13.3 The cost of such write-off will be recognised as a cost for tariff setting purposes, although the regulator may wish to review the debt recovery processes of the companies to ensure that reasonable steps are being taken to ensure debts are being appropriately pursued.
- 4.13.4 The debtors balance at each year end (including the starting point for regulatory accounting 1 January 2009) should be derived from an aged debtors analysis wherever possible. If this is not possible then some method should be used to estimate the debts that are greater than one year old and the method used should be clearly stated.
- 4.13.5 An illustrated example of the regulatory treatment of debtors is provided in Annex 4.

5. ASSET CATEGORIES

5.1 Non-current assets

5.1.1 An important part of tariff calculation for regulated utilities is that it includes a return on the value of their assets. The value that a regulator uses for tariff setting purposes will not necessarily be the same as that used in the Financial Statements of the regulated company. The regulatory accounts will show the asset values for regulatory purposes.

5.2 Distinction between infrastructure and non-infrastructure assets

5.2.1 In the water industry an important distinction is made for regulatory purposes between:

- a) *Infrastructure assets* – those assets (predominantly underground assets) which if adequately maintained can be expected to provide a level of service to customers for an indefinite period of time. These assets are not subject to depreciation. Instead, an infrastructure renewals charge (IRC) is made to the income statement to represent the maintenance of asset serviceability by the business during the year as described further in section 6.2; and
- b) *Non-infrastructure assets* – those assets (predominantly above ground assets) that have some pre-determined life and can be expected to be disposed of or replaced at the end of their expected life. These assets are subject to depreciation over their expected useful lives.

5.2.2 Infrastructure assets generally comprise:

- land;
- underground systems of mains and sewers;
- impounding and pumped raw water storage reservoirs;
- dams and canals;
- sludge pipelines; and
- information about infrastructure assets e.g. zonal investigations records.

5.2.3 Other assets (principally above ground) are classified as non-infrastructure.

5.2.4 More detailed guidance on which asset belong in which of these categories is provided in Annex 6.

5.3 Capital expenditure on infrastructure maintenance

5.3.1 Capital expenditure on infrastructure assets which does not enhance or expand the infrastructure (i.e. is to maintain existing capacity and service levels provided by infrastructure assets) is not added to the regulatory asset base, but is funded through the infrastructure renewals charge (see section 6.2)

5.3.2 Only those assets that are funded by the company are included in the Regulatory Asset Base. Any infrastructure enhancement or improvements which are funded by grant or capital contributions are not included.

5.4 Classification of expenditure

5.4.1 Full details should be provided itemising the additions to the asset base each year. These additions should be categorised by purpose either as:

- **base service provision**, which is required to maintain the current (most recently established base) level of serviceability to customers; or as
- **enhancement** where there is a permanent increase in the current level of serviceability to a new "base" level.

Enhancement is further divided as follows:

- **quality** where expenditure is required to comply with new (i.e. since the base service level was established) legally enforceable quality obligations;
- **enhanced** service level (ESL) where expenditure provides an identifiable, measurable and permanent step change in overall level of service to existing customers above the standard previously provided;

- **supply/demand** balance (SDB) where expenditure provides water and sewerage services for new customers with no net deterioration from the current level of service provided to existing customers; and/or accommodates the increased use of water by existing customers at the current level of service.
- 5.4.2 Routine maintenance not included in capital expenditure and other maintenance expenditure arising in a reactive way on a day to day basis are treated as an operating costs and taken directly to the profit and loss account.
- 5.4.3 Annex 6 to these guidelines classifies the categories of capital expenditure infrastructure / non-infrastructure and by purpose (Base Service Provision, Quality enhancement, ESL, and SDB).
- 5.4.4 Proportional allocation of capital expenditure is required between purpose categories where appropriate, i.e. base service provision, quality enhancement, service levels and supply/demand balance. The last three purpose categories represent an enhancement: a permanent increase in aggregate service level to existing customers and/or the provision to new customers of the current service level. Enhancement projects may serve several purposes and in most cases will involve an element of maintenance works being carried out earlier than otherwise necessary. This advanced maintenance element should be allocated to base service provision.
- 5.4.5 Where enhanced service levels arise from expenditure required for other purpose categories then only the incremental expenditure, if any, should be allocated to ESL. Allocation to ESL should represent expenditure incurred solely for the purpose of achieving an identifiable, measurable and permanent stepped improvement in aggregate service levels.

6. ACCOUNTING FOR CAPITAL MAINTENANCE

6.1.1 Infrastructure assets are those assets (mainly underground assets) which do not have a finite life and which, if appropriately maintained, will be capable of continuing to provide a predetermined level of service to customers indefinitely.

Non-infrastructure assets are those assets (mainly above ground) which have a finite life and so are depreciated over that life and may be replaced at the end of that life.

6.1.2 Capital maintenance is concerned with maintaining the existing asset base (both infrastructure and non-infrastructure assets) and so consists of both:

a) Infrastructure renewals charges – for non-depreciating assets, the measure of maintaining those assets (infrastructure assets) such that they remain capable of providing the expected level of service to customers for the indefinite future; and

b) Depreciation – the measure of how the cost of an asset (and therefore the cost of replacing that asset) is allocated over its anticipated useful life.

6.2 Infrastructure renewals

6.2.1 The infrastructure renewals charge (IRC) is the annual cost of maintaining infrastructure assets at a pre-determined level of service to customers. This amount should represent the company's assessment of its long-term capital maintenance needs to maintain infrastructure asset serviceability and operating capacity.

6.2.2 For statutory accounting purposes expenditure on the maintenance of these assets comprising repair or replacement of components of the assets may be either capitalised or expensed against some other cost line, but for regulatory accounting purposes all such expenditure that is actually incurred during the year to maintain the infrastructure assets is charged against the infrastructure renewals allowance.

6.2.3 Only expenditure which leads to enhancement (in terms of providing a higher level of service provision to customers than was previously intended) or expansion (such as connecting new areas to the network) will be capitalised. All other expenditure on the infrastructure assets should be charged against the infrastructure renewals allowance.

6.2.4 Infrastructure renewals grants and contributions

6.2.5 For tariff calculation purposes the annual infrastructure renewals charge will be reduced by the amount of any grants, subsidies or contributions expected to be received for activities that form part of infrastructure maintenance. This is to ensure that customers do not pay through their tariffs for activities that have been funded through other means.

6.2.6 To monitor infrastructure renewal spend against the infrastructure renewals allowance companies should therefore provide in their regulatory accounts an analysis of the actual spend incurred and also the grants, subsidies and contributions received for that expenditure. The net expenditure (after deducting grants, subsidies and contributions) can then be compared to the infrastructure renewals allowance that was provided in the tariff determination to establish the extent of any under or over spend against what was allowed.

6.2.7 Infrastructure renewal accrual/prepayment

6.2.8 The infrastructure renewals charge is taken to the balance sheet as a provision (for liabilities and charges) and actual expenditure on the maintenance of infrastructure assets is set off against this provision as it occurs rather than being charged to the income statement or capitalised. Any difference from year to year between the infrastructure renewals charge and the actual expenditure incurred against it is accumulated in the balance sheet as a cumulative accrual or prepayment as appropriate. This is determined separately for each of the water and wastewater infrastructure systems and is included as an allowance in the respective tariff determination calculations.

6.2.9 The infrastructure renewal accrual or prepayment represents either:

- Monies that have been received through tariffs for infrastructure renewals that have not been carried out, but will need to be carried out in order to ensure that the assets remain capable of providing the necessary level of service; or
- Work that has been carried out in advance of the receipt of funds through the tariff, in order to maintain the service capability of the assets and which will therefore be funded through the infrastructure renewals allowance in future years' tariffs.

6.2.10 Where the infrastructure renewals accrual or prepayment builds to significant levels, the WWRO will wish to review the reasons for this as it may indicate either an issue with the level of infrastructure renewals allowance that has been set, or a persistent problem with under or over spend on infrastructure renewals by the company.

7. REGULATORY ASSET BASE

7.1 Initial asset value

7.1.1 The tariff methodology used by the WWRO starts at 1st January 2009 with a regulatory asset base (RAB) for each of the water companies determined using a value for water supply assets of €200 per water company customer and a value for wastewater assets of €100 per wastewater customer.

7.1.2 These initial values for water and wastewater are apportioned between infrastructure and non-infrastructure assets using the proportions of such assets in the company's own asset records

7.2 Indexation

7.2.1 To maintain the value of the regulatory asset base in real terms it is necessary to apply an inflation factor each year. The approach adopted by the WWRO tariff methodology uses the Consumer Price Indices for Kosovo as published by the Statistical Office of Kosovo. The closing asset value in year n is increased to a value for the opening value in year n+1 using the following formula:

$$RAB_{n+1} = RAB_n \times \frac{CPI_{n+1}}{CPI_n}$$

Where:

RAB_n = value of Regulatory Asset Base in year n

RAB_{n+1} = value of Regulatory Asset Base in year n+1

CPI_n = average CPI index for year n as published by the Statistics Office of Kosovo

CPI_{n+1} = average CPI index for year n+1 as published by the Statistics Office of Kosovo

7.2.2 Assets acquired during the year will not need indexing as they are already in the correct price base.

7.2.3 Depreciation calculations will be based on the indexed opening values and will therefore also be in the correct price base.

7.3 Additions (non-infrastructure assets)

7.3.1 New assets only enter the regulatory asset base at the time of commissioning, i.e. when they are providing a service to consumers. The value at which they are added to the regulatory asset base is the cost of the asset including installation costs and any applicable interest incurred during construction. Interest during construction should be calculated at the weighted average cost of capital (WACC) to ensure that assets in the course of construction earn the same rate of return as assets in use.

7.3.2 If an asset has been entirely funded by grants or capital contributions, it is not included in the regulatory asset base. The only assets that should be included are those that have been funded by the company, as it is only this amount that should earn a rate of return and depreciation through customer tariffs.

7.3.3 Where an asset is partially funded by grants or capital contributions, only the part that has been funded by the company (i.e. the total cost less the value of the grants/contributions) should be included in the asset base as an addition.

7.4 Additions (infrastructure)

7.4.1 Capital expenditure on infrastructure assets is only added to the regulatory asset base if it increases or enhances the service provided by the existing asset base (eg extending the network to connect new properties). Capital expenditure on infrastructure assets which seeks to only maintain current levels of service and standards is not added to the regulatory asset base, but is covered through the infrastructure renewals charge (see section 6.2).

7.5 Disposals

7.5.1 Proceeds from the disposal of non-current assets (both infrastructure and non-infrastructure) should be netted off against the cost of additions in the year so that the regulatory asset base is

increased by the net investment in new assets. This should be done separately for water supply, wastewater, infrastructure and non-infrastructure assets.

7.6 Depreciation

- 7.6.1 For simplicity all depreciable assets (i.e. non-infrastructure assets) are pooled in the Regulatory Asset Base and depreciated over the average asset life. This average asset life has been determined to be 35 years based on a review of assets held by all water companies in Kosovo.
- 7.6.2 For the purposes of regulatory accounting all non-infrastructure assets commissioned in the financial year are deemed to have been commissioned at the mid-point of the year, i.e. 30 June and so will earn half a year's depreciation in that year.
- 7.6.3 The value of depreciation is therefore $\frac{1}{35}$ of the value of the opening regulatory asset base (indexed up to current year prices) plus $0.5 \times \frac{1}{35}$ of the additions during the year.
- 7.6.4 Since the opening value of the RAB is adjusted to current price levels each year by using yearly average CPI statistics, and the additions are already in current prices, this method ensures that depreciation in the regulatory accounts is always in current price terms and thus will be sufficient to allow for the replacement of those assets at the end of their lives.

7.7 Grants, donations and capital contributions

- 7.7.1 Assets that have been funded by grants, donations, constructed by third parties and adopted by the RWCs at no charge or capital contributions are not included in the regulatory asset base, and assets that are partially funded are only included to the extent that they are funded by the company. Hence there is no depreciation for these assets and customers are not made to pay tariffs for assets which the company has not funded itself.

ANNEX 1 – INCOME AND EXPENDITURE ANALYSIS TEMPLATE

	Water Supply			Wastewater services			Non-core activities	
	Resources & Treatment	Dist.	Water Supply Total	Sewerage	WW Treatment	Sludge Treatment Disposal		WW Total
	€	€	€	€	€	€		€
Income			xxx				xxx	xxx
Grants & subsidies received			xxx				xxx	xxx
Direct Costs								
Service charges	xxx	xxx	calc	xxx	xxx	xxx	calc	xxx
Energy costs	xxx	xxx	calc	xxx	xxx	xxx	calc	xxx
Fuel costs	xxx	xxx	calc	xxx	xxx	xxx	calc	xxx
Staff costs	xxx	xxx	calc	xxx	xxx	xxx	calc	xxx
Materials and consumables	xxx	xxx	calc	xxx	xxx	xxx	calc	xxx
Contracted services	xxx	xxx	calc	xxx	xxx	xxx	calc	xxx
Maintenance and repair	xxx	xxx	calc	xxx	xxx	xxx	calc	xxx
Other direct costs	xxx	xxx	calc	xxx	xxx	xxx	calc	xxx
Total direct costs	calc	calc	calc	calc	calc	calc	calc	calc
Indirect costs								
Business activities								
Energy costs			xxx				xxx	xxx
Fuel costs			xxx				xxx	xxx
Staff costs			xxx				xxx	xxx
Materials and consumables			xxx				xxx	xxx
Contracted services			xxx				xxx	xxx
Maintenance and repair			xxx				xxx	xxx
Other indirect costs			xxx				xxx	xxx
Total business activities			calc				calc	calc
Other Indirect costs								
Bad debts			xxx				xxx	xxx
VAT on bad debts			xxx				xxx	xxx
Total other indirect costs			calc				calc	calc
Total indirect costs			calc				calc	calc
Capital maintenance				xxx	xxx	xxx		
Infrastructure renewals	xxx	xxx	calc	xxx	xxx	xxx	calc	xxx
Depreciation								
- Service activities	xxx	xxx	calc	xxx	xxx	xxx	calc	xxx
- Business activities			xxx				xxx	xxx
Total capital maintenance	calc	calc	calc	calc	calc	calc	calc	calc
Total pre-tax income			calc				calc	calc

Key

Input

xxx

Calculated

calc

Not applicable / not required

ANNEX 2 – REGULATORY BALANCE SHEET TEMPLATE

	Water	Wastewater	Non-core activities
	€	€	€
Non-current assets (RAB)			
Infrastructure assets			
Non-infrastructure assets			
Total non-current assets	0	0	0
Current assets			
Stocks			
Debtors			
Prepayments and accrued income			
Cash balances			
Other current assets			
Total current assets	0	0	0
Total assets	0	0	0
<hr/>			
Regulatory Equity			
Non-current liabilities			
Loans > 1 year			
Other liabilities > 1 year			
Total non-current liabilities	0	0	0
Current Liabilities			
Trade Liabilities			
Customer deposits			
Loans < 1 year			
Other current liabilities			
Total current liabilities	0	0	0
Total regulatory equity and liabilities	0	0	0

ANNEX 3 – ILLUSTRATION OF RAB CALCULATIONS

	Water		Wastewater		Total
	Inf.	Non-inf.	Inf.	Non-inf.	
RAB at 31.12.2009 in 2009 prices	4,399,084	1,175,908	1,098,777	67,612	6,741,280
Indexation adjustment to 2010 prices					
Kosovo average CPI 2009	109.7				
Kosovo average CPI 2010	113.5				
	152,384	40,733	38,062	2,339	
Opening RAB value 2010 in 2010 prices	4,551,468	1,216,641	1,136,838	69,850	6,974,797
Additions (net of disposals)					
Infrastructure enhancement	6,000		1,500		
Non-infrastructure additions		600		250	
Depreciation					
Average asset life (years)	35				
		-34,770		-1999	
RAB asset value at 31.12.2010 in 2010 prices	4,557,468	1,182,471	1,138,338	68,101	6,946,378

ANNEX 4 – ILLUSTRATION OF REGULATORY TREATMENT OF DEBTORS

Debtors			
Brought forward	45		
Sales	100	Receipts	70
		Write-off to Profit & Loss	35
		Carried forward	40
	145		145

In the above the brought forward figure of 45 represents the debtors at the beginning of the year that are less than one year old. The figure is derived from an aged analysis of debtors at the end of the previous year.

The sales figure represents the amount of sales invoiced during the year (including VAT).

The receipts figure represents the payments that have been received during the year.

The carried forward balance of 40 represents the debtors at the end of the current year that are less than one year old. The figure is derived from an aged analysis of debtors at the end of the current year. This is the figure that is shown in the regulatory balance sheet for debtors.

The figure of 35 is the balancing figure and is the amount that is charged to the regulatory income and expenditure account.

Since sales during the year were 100 and the carried forward balance (which represents outstanding amounts only from sales during the year) is 40, this means that 60 of the receipts were in respect of sales during the year.

The brought forward balance, which now represents sales that are more than one year old, has produced 10 (=70 minus 60) of receipts and the remaining 35 is therefore the amount that has been written off to profit and loss.

ANNEX 5 – DESCRIPTIONS OF OPERATIONAL ACTIVITIES

Service activities – Water supply

Resources and treatment

Items to be included	Description
Low lift pumping	Operation, maintenance and power costs of pumps, buildings and equipment used for abstraction, conveyance to treatment and treatment (i.e. excludes high lift pumping used to transfer to service reservoirs or boosting to/within the distribution system).
Treatment of raw water	Activities associated with treatment of raw water from all sources - chemicals used in water treatment and other associated costs; sludge and waste water disposal; lifting of sand filter beds when required; inter-process pumping; provision, operation and routine maintenance of fixed plant.
Operation and routine maintenance of raw water pipelines and aqueducts	Operation, repair and maintenance of raw water mains, valve operation, cleaning and testing, ongoing inspection of major mains, initial chemical treatment to maintain flow of water through aqueducts.
Waste detection	Sounding, waste runs and step testing, and specific use of all flow measurement equipment for waste detection within the raw water system, maintenance of correlators and other waste equipment, meters and chambers. Purchase and collection of charts and loggers.
Operation and routine maintenance of reservoirs	Operation and routine maintenance of raw water reservoirs including: routine maintenance of dam structures and associated valves and outlet mechanisms; and operation of discharge valves.
General costs	Abstraction charges, and bulk purchases of water
Administration, supervision and management	The direct costs of administration, supervision and management should be identified and allocated to each activity as appropriate.

Distribution

Items to be included	Description
High lift pumping	Operation, maintenance and energy costs of pumps, buildings and equipment used for the transfer of water from treatment to service reservoirs or for boosting to/within the distribution system.
Operation and routine maintenance of service reservoirs and towers	Operation and routine maintenance of service reservoirs and towers, routine maintenance of vents and covers; minor repair and maintenance to valves and valve chambers, overflows and drains for which reservoir emptying is necessary; inspections to assess reservoir security and structural and aesthetic conditions of the site.
Reservoir cleaning	Cleaning and remedial work to reservoirs - initial valving off and diversion of supplies, provision of sterilisation, cleaning and lighting facilities; removal of sludge; cleaning; refilling, disinfection testing and reconnection into supply.
Operation and routine maintenance of aqueducts and mains	All mains repairs - valve operations, actual repairs; mains flushing, disinfection and testing; backfilling, reinstatement, reconnection; operation of aqueducts and mains.
Operation and routine maintenance of valves and similar apparatus	Repair and maintenance of AVs, WO's, SVs, hydrants and other valves, and of pressure reducing tanks. (Include repairs to chambers and covers and routine shutting and opening of valves to check satisfactory operation). Provision of valves and similar apparatus on the distribution system.
Repair and maintenance of services	Repair and maintenance of services from ferrule to the boundary stop tap inclusive. Associated valve closures, notifications, temporary supplies etc.
Replacement and repair of meters	Replacement calibration and repair of district and zonal meters (excluding waste meters).
Minor repairs to consumer meters in situ	Any work carried out on site to repair meters.
Consumer meter installation and replacement	Installation, removal and replacement of customer meters (but excluding the purchase and refurbishment costs of meters which are capitalised or recharged to customers).
Operation and control of distribution system	Monitoring satisfactory pressures and water quality. Pressure recording and testing, flow measurement and reservoir level reading. Operation of AVs, WO's, SVs and PRV adjustment. Swabbing, flushing, air scouring, and notification of consumers (excluding any works which are included as infrastructure renewals). Routine post treatment; disinfection and chemical dosing for local control; and infestation control including sampling and notification.
Waste detection	Sounding, waste runs and step testing, and specific use of all flow measurement equipment for waste detection within the water distribution system, maintenance of correlators and other waste equipment, waste meters and chambers. Purchase and collection of charts, loggers.

Items to be included	Description
Byelaw inspection	Checking installations, giving advice and enforcing compliance, including: inspection of new domestic and non-domestic connections; inspection of existing properties when plumbing alterations have taken place and there is a risk of contamination and periodic connections; inspection of industrial premises and farms (also including pre and post-inspection of domestic/non-domestic properties during installation of customer meters).
Investigations of enquiries and complaints	Activities arising from enquiries and complaints relating to the distribution system from customers, contractors or other utilities, including site visits, the use of pipe locating equipment, and any attendance on sites during excavations. Investigation of complaints of low pressure, or inadequate or unsatisfactory supply, including site visits, pressure testing, sampling, cleaning out of service pipes, and compensation for damage to customer property.
Administration supervision and management	All direct costs of administration, supervision and management should be identified and allocated to this sub-service activity as appropriate. Note: 1 Where pumps serve a dual low lift/high lift function an assessment must be made of the costs of each function based on relative pumping head. 2 When distribution employees are employed on work related to tariff changes and charging and billing enquiries, they should be charged to "Customer Services".

Service activities – Wastewater services

Wastewater collection

Items to be included	Description
Sewer inspection, storm overflow and outfall	Sewer inspection including CCTV maintenance examinations and physical inspection of man entry sewers
Sewer cleansing including jetting, winching and flushing	Jetting, flushing and winching to clear debris or silting in the sewers, manholes, storm overflows, syphons, tanks, rising mains and other structures.
Sewer blockages	Clearance of blockages including any rodding, jetting, flushing etc involved in clearing the blockage.
Sewer maintenance and repair including manholes and emergency work	Routine repairs to sewers, manhole cover replacements, repairs to manholes, structures and pipes by refurbishment methods and other work of a non-recurring nature. Improvement, extension, repair, renewal, replacement and renovation of sewers and structures including sewer relining.
Inspection and operational maintenance of pumping stations	Inspection and routine maintenance of pumping stations and associated equipment, including screens; wet well maintenance, greasing and gland packing. (NB Exclude terminal pumping stations which should be charged to wastewater treatment and disposal.)
Pumping operations	Power and other costs incurred in the operation and maintenance of pumping stations. (NB Exclude terminal pumping station; which should be charged to wastewater treatment and disposal.)
Sewer records	Agreed improvements to sewer records.
Investigation of enquiries and complaints	Activities arising from enquiries and complaints relating to the sewerage system from customers, contractors, or other utilities, including site visits, the use of pipe locating equipment, and any attendance on sites during excavations.
Administration, supervision and management,	All direct costs of administration, supervision and management should be identified and allocated to this subservice activity as appropriate.

Wastewater treatment

Items to be included	Description
Sewage pumping	The pumping of crude sewage, storm sewage and effluent derived from other sources to preliminary/primary treatment processes or to a watercourse. Costs should include all aspects of operation and routine maintenance,
Provision of preliminary treatment	The operation and routine maintenance of screening, comminution, maceration, grit/detritus removal and storm tanks.
Provision of primary treatment	The operation and routine maintenance of all aspects of primary sedimentation processes to include desludging by direct pumping or any other means to the first stage of the sludge treatment process.
Filtration	The operation and routine maintenance of biological filtration processes to include the cost of humus tank activities and internal pumping of effluent.
Activated sludge processes	The operation and routine maintenance of activated sludge processes to include the cost of activated sludge settlement tank activities, return sludge pumping, energy and external plant.

Items to be included	Description
Tertiary treatment	The operation and routine maintenance of tertiary treatment processes and nitrifying filters to include process pumping.
Administration, supervision and management	All direct costs of administration, supervision and management should be identified and allocated to this subservice activity as appropriate.

Sludge treatment and disposal

Items to be included	Description
Thickening of sludge by gravity and low energy processes	The operation and routine maintenance of gravity and low energy processes, to include retention costs prior to tanker disposal of the thickened sewage sludge.
Sludge digestion	The operation and routine maintenance of processes associated with the anaerobic digestion of sewage sludge to include pre-thickening, primary digestion, secondary digestion, including the cost of further retention prior to additional treatment or disposal.
Mechanical sludge dewatering	The operation and routine maintenance of processes to mechanically dewater sewage sludge, including filter presses, vacuum filters, centrifuges etc. Pre-thickening costs and relocation of sludge cakes to tips on site to be included.
Air drying of sludge	The operation and routine maintenance costs associated with sludge drying bed processes, including the lifting of sludge cakes and relocation to tips on site.
Incineration	The operation and routine maintenance of sludge incineration processes, other pre-treatment costs (including mechanical sludge dewatering), and the relocation of ash to tips on site.
Sludge tankered to land	The operation and routine maintenance of all activities associated with the removal of stabilised sludge from the point of collection to its final resting place, including intermediate storage costs.
Sludge pumped to land	The operation and routine maintenance of pumping stabilised sludge to land including costs of pumping and site work etc.
Sludge to land by soil injection	The operation and routine maintenance of all activities associated with the disposal of sludge to land by soil injection from the point of collection to its final resting place.
Sludge cake disposal	The operation and routine maintenance associated with the transportation and redistribution of sewage sludge cakes from the point of collection to final resting place to land or tip, to include costs of tip maintenance and other charges.
Sludge to landfill	The operation and routine maintenance costs of all activities associated with the removal of stabilised sludge from the point of collection at a landfill site, including gate fees and tax.
Sludge transfer to sewers and other works	The operation and routine maintenance costs of transferring sludge from the point of origin to sewers and other works by pumping, tankering or other means prior to disposal at the point of reception.
Other sludge disposal methods	The operation and routine maintenance costs of all activities associated with the treatment and disposal of sludge by other methods, including composting, grossification, pyrolysis, silviculture and forestry
Administration, supervision and management	All direct costs of administration, supervision and management should be identified and allocated to this subservice activity as appropriate.

Business activities

Customer services

Items to be included	Description
Customer accounting	Customer accounting, including customer liaison and correspondence; maintenance and control of data; despatch of customer documents; control of inputs and outputs into the system and forecasting.
Customer meter reading	Reading of meters plus any supervision and management of meter readers.
Miscellaneous	Miscellaneous billing including new connections, maintenance and control of files; despatch of customer documents; billing of trade effluent charges; maintenance of control accounts and forecasting; specific customer enquiries. The costs associated with routine inspections for void properties.
Cash control	Collection, receipt and control of remittances.
Debt recovery	Total costs directly associated with the collection of outstanding revenue from customers. Include the costs of reminder bills and of debt recovery. The cost of outstanding revenue collection services purchased and of commission payments to third parties contracted for billing services should be included. Relevant costs should include costs of dedicated debt handling or revenue collection teams, court and legal expenses and the costs of disconnection.
Tariff changes	Options, applications and requests including enquiries from customers on tariff changes.
Charging and billing enquiries	Customer and audit enquiries on charging matters resulting in on-site investigations by operational and billing employees

Administration, supervision and management	<p>Administration and control of customer complaints including centralised record of complaints, monitoring the resolution of complaints, and judging how the company should meet customers' needs. The costs of dealing with potential transferees to the measured tariff.</p> <p>All direct costs of administration, supervision and management should be identified and allocated to this subservice activity as appropriate.</p>
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Scientific services

Items to be included	Description
Provision of operational scientific services	<p>Investigation of source quality, treatment and disinfection. Investigation of plant performance and the effects of the distribution system upon quality and wholesomeness. Review of water treatment and reclamation works performance, recommendations on optimum mode of operation and solution to operation difficulties and malfunctions. Investigation of sewerage problems. Monitoring of sludge disposal. Development and implementation of clean working procedures and source risk assessment. Formulation and implementation of monitoring and sampling programmes and interpretation and reporting upon results to meet management requirements and safeguard public health.</p> <p>Sampling for operational purposes.</p> <p>Assessment of works capacity and methods of uprating, where desirable.</p> <p>Advice upon process selection and specification for new treatment plant.</p> <p>Monitoring and advice on the use of chemicals in water treatment and disinfection, water reclamation and sludge treatment.</p> <p>Investigation of complaints by domestic and industrial customers and advice to industrial users on water use.</p> <p>Liaison with health and environmental authorities.</p> <p>Data-handling associated with provision of scientific support.</p> <p>Advice on health and safety of personnel with particular reference to the handling of chlorine gas and other chemicals and on the occurrence of dangerous atmospheres.</p>
Provision of laboratory services	<p>Receipt, registration and chemical, biological and bacteriological analysis of samples from water reclamation works, water treatment works, rivers, underground waters, industrial discharges, trade effluent discharges, distribution network and customer taps, sludges and soils.</p> <p>Reporting of results.</p> <p>Data management within the laboratory up to assembly of the analytical report.</p> <p>Specialist advice on interpretation of results, particularly on biological and bacteriological data.</p> <p>Management of equipment used in laboratory analysis and of chemical monitoring, seasons and interfaces in the field.</p> <p>Analytical quality control exercises.</p> <p>Laboratory performance measurement.</p>
Quality review	<p>Maintaining an independent and continuous review of the management and operation of the Company's responsibilities for water quality matters, including water resources and supplies, river and ground waters, sewage and trade effluent to sewers, sewage effluent and trade effluent to rivers and sea, and sewage sludges.</p> <p>Examination of quality standards and compliance rates; practices and procedures to ensure compliance with standards and systems for handling customer and other public complaints in respect of quality; review of emergencies and incidents which have affected quality.</p>
Administration, supervision and management	All direct costs of administration, supervision and management should be identified and allocated to this sub-service activity as appropriate.

Cost of regulation

Items to be included	Description
General	Co-ordination and supervision of liaison with regulatory bodies.
Licence fees	Licence fees payable to WWRO in respect of regulation.
Certification fees	Certification (including audit) fees incurred as a result of licence requirements.
Scientific services	Submission to, and liaison with other regulatory bodies on, matters relating to water quality, abstraction levels, effluent quality, and consent standards.
Regulatory accounts	Incremental costs associated with the preparation of the regulatory accounts.
Returns	The preparation and submission of returns to WWRO.
Asset management plan	Incremental costs associated with the development of the asset management plan.
Tariff review	Incremental managerial costs associated with tariff reviews

General and support activities

Items to be included	Description
Provision of administrative services	Provision of general administration, printing, secretarial, personal assistance, clerical services, including the administration and acquisition of materials equipment and services
Personnel services	Industrial relations, recruitment, selection and termination, manpower information systems, welfare, general personnel duties, administration of employee schemes, administration and provision of training services
Management services	Productivity schemes, structural control, health and safety advisory services and canteen facilities
Financial services	Financial and management accounting and budget preparation, provision of payroll administration, creditors administration, insurance administration, financing services, charge policy determination and implementation and charge fixing.
Legal and property management services	<p>Legal matters relating to purchase and sale of land property (including establishing owners and occupants of land affected by capital schemes); leasing of land and office properties; granting of easements (and the preparation of records of condition of land prior to entry) and them by and to the Company; tenancy agreements; licences; highway matters; property records and legal library; agreements with developers. Litigation and other legal issues including drafting contracts and advice on contractual matters; prosecutions by the Company, defence of the Company in prosecutions brought by outside bodies/persons, civil actions including debt recovery; arbitrations and advice relative to contractual claims and claims for compensation arising from public works.</p> <p>Advice on Company's responsibilities under legislation</p>
Research and development	Co-ordination and provision of research and development
Policy determination implementation and monitoring	Co-ordination of long/medium term planning objectives including: policy formulation, strategy development / planning, reviews of demand forecasts / surveys, database management, capital strategies and implementation.
Audit services	Financial and technical audit services
Public and employee relations services	Public relations services and employee information services
Vehicles and plant	Fleet management, maintenance and running costs, garages etc.
Storage of materials	Storage of materials/stock control, stores buildings, office and other general and support buildings, cleaning services.

ANNEX 6 – CLASSIFICATION OF CAPITAL EXPENDITURE BY ASSET TYPE AND PURPOSE

This schedule sets out the classification of capital investment between infrastructure and non-infrastructure assets by purpose, either base service or improved quality. The service enhancement categories of 'enhanced level of service' (ELS) and 'supply demand balance' (SDB) can apply across all categories.

Water supply service areas

Water resource facilities

Water treatment works

Water distribution mains

Service reservoirs and water towers

Booster pumping stations

Management and general – water supply service

Wastewater service areas

Wastewater collection

Headworks

Sewage treatment works

Sludge treatment

Sludge disposal

In-line pumping stations

Terminal pumping stations

Management and general – wastewater service

Infrastructure or non infrastructure	Water supply service – all areas	Expenditure purpose
Infra or Non-infra	Element of works solely to achieve an identifiable, measurable and permanent stepped improvement in service levels above the most recently established base service level.	ELS
Infra or Non-infra	Element of works required solely to meet demand from new customers and/or increased demand from existing customers.	SDB

Infrastructure or non infrastructure	Water resource facilities	Expenditure purpose
Non-infra	<p>All dams and impounding reservoirs holding raw water; all pumping stations in raw water systems including in-line transfer pumping, river intakes, boreholes and wells requiring simple disinfection prior to forwarding into the supply system; and all mains or aqueducts associated with the transfer of raw water either between sources or from source to treatment.</p> <p>RESOURCE DEVELOPMENT</p> <p>Refurbishment of boreholes, river intakes and related facilities.</p>	Base
Infra	<p>RESERVOIR MAINTENANCE INCLUDING SAFETY</p> <p>Repointing and repair of dam/spillway, extending height of dam wall and freeboard, extending/widening spillway, rehabilitation work.</p>	Base
Non-infra	<p>PUMPING STATIONS</p> <p>New/renewal of/other work to pumping stations size for size element and/or rationalisation</p>	Base
Infra	<p>AQUEDUCT REFURBISHMENT</p> <p>Size for size/equivalent metric size element of mains replacement irrespective of material.</p>	Base
Infra	Scraping and lining/relining to address condition/pressure/flow /interruption problems.	Base
Infra	Relining arising solely from need for final water supplied to meet the terms of the EU or Kosovo Water Quality Regulations and resulting in a pipe capable of delivering water to an appropriately increased standard. Note: Subsequent scraping and lining would be maintenance and therefore Base.	Qual
Infra	General preservation of the network including repointing, scouring, pipe bursting size for size and investigation of aqueduct condition.	Base
Infra	Refurbishment/replacement of pipe bridges, tunnels, canals, valves and chambers.	Base
Infra	Works to secure/provide alternative supplies in order to maintain base service provision.	Base
Infra	Size for size element of diversions.	Base
Infra Non-infra	<p>GENERAL</p> <p>Works to comply with health and safety legislation:</p> <ul style="list-style-type: none"> - below ground; - above ground. 	Base
Infra Non-infra	<p>Works to improve efficiency e.g. energy conservation:</p> <ul style="list-style-type: none"> - below ground; - above ground. 	Base

Infrastructure or non infrastructure	Water treatment works	Expenditure purpose
	All water treatment works, but excluding both simple disinfection associated with groundwater boreholes/wells and also secondary disinfection included with the distribution system.	
Non-infra	Size for size element of additional/enhanced treatment facilities, renewals of existing works including instrumentation control and automation.	Base
Non-infra	New instrumentation control and automation to improve operational efficiency even if it improves treatment quality.	Base
Non-infra	Element of additional/enhanced treatment facilities arising solely to comply with legal quality obligations for the current works aggregate capacity and resulting in treatment works capable of supplying water to an appropriately increased quality standard.	Qual
Non-infra	Works to comply with health and safety legislation.	Base
Non-infra	Works to improve efficiency e.g. energy conservation	Base

Infrastructure or non infrastructure	Water distribution mains	Expenditure purpose
	All mains associated with the supply of water for industrial and domestic uses including associated pipe bridges, tunnels/conduits, service tunnels, culverts, valves, chambers and system ancillaries. MAINS	Base
Infra	Diversion, duplication, new, relining, requisitioned, replacement, reinforcement, scraping and lining: - size for size/equivalent metric size element, irrespective of material to maintain base service provision;	Base
Infra	- element arising solely from the need for current capacity to comply with legal quality obligations	Qual
Infra	Renewal of pipe bridges, tunnels, conduits, valves and chambers. CUSTOMER ANCILLARIES	Base
Non-infra	Renewal/replacement of flow/pressure meters and chambers.	Base
Infra	Replacement/enhancement of communication/service pipes: OTHER WORK	Base
Infra	Zonal investigations.	Base
Non-infra	Pressure and flow monitoring (incl. portable loggers)	Base
Non-infra	Secondary disinfection.	Base
Infra	Works to comply with health and safety legislation.	Base
Non-infra	- below ground; - above ground.	
Infra	Works to improve efficiency e.g. energy conservation	Base
Non-infra	- below ground; - above ground	

Infrastructure or non infrastructure	Service reservoirs and water towers	Expenditure purpose
	All treated water service reservoirs and towers within the water supply system and water treatment works and secondary disinfection plant on reservoir sites. Include break pressure tanks.	
Non-infra	Renewal of/other work to service reservoirs and water towers.	Base
Non-infra	Works to comply with health and safety legislation.	Base
Non-infra	Works to improve efficiency e.g. energy conservation	Base

Infrastructure or non infrastructure	Pumping stations – treated water	Expenditure purpose
	Pumping stations drawing on treated water storage. Note: Pumping stations in raw water systems are included under Water Resource Facilities and interstage pumping stations at water treatment works under Water Treatment.	
Non-infra	New/renewal of/other work to pumping stations size for size element and/or rationalisation.	Base
Non-infra	Works to comply with health and safety legislation.	Base
Non-infra	Works to improve efficiency e.g. energy conservation	Base

Infrastructure or non infrastructure	Management and general – water service	Expenditure purpose
Infra	General mapping and updating of network records and associated improvements in efficiency.	Base
Non-infra	New/extensions to existing land, buildings, laboratories, depots and workshops.	Base
Non-infra	New/renewal of telemetry/communications systems, leakage control/monitoring equipment, analytical/sampling plant and equipment, land, buildings, laboratories, depots and workshops.	Base
Non-infra	New/renewal of computers (including software), vehicles and mobile plant.	Base
Non-infra	Recreation/conservation.	Base
Non-infra	Site security.	Base
Non-infra	Works to comply with health and safety legislation.	Base
Non-infra	Works to improve efficiency e.g. energy conservation	Base

Infrastructure or non infrastructure	Wastewater collection services – all areas	Expenditure purpose
Infra or non-infra	Element of works solely to achieve an identifiable, measurable and permanent stepped improvement in service levels above the most recently established base service level.	ELS
Infra or non-infra	Element of works required solely to meet demand from new customers and/or increased demand from existing customers.	SDB

Infrastructure or non infrastructure	Wastewater collection	Expenditure purpose
	All foul water, combined, relevant surface water and sewers including interceptor sewers, manholes, overflows, sewage pumping mains, syphons, tank and transfer sewers. Diversion/duplication/new /renewal/replacement/requisitioning of sewers, interceptor sewers, storm overflows, storage capacity and step irons/manhole covers; drainage area investigations including flow surveys and catchment specific records upgrading.	
Infra	- size for size/equivalent metric size element, rationalisation;	Base
Infra	- element required solely either to improve unsatisfactory overflows or to comply with new discharge consents and regulations.	Qual
Infra	Works to comply with health and safety legislation	Base
Infra	Works to improve efficiency e.g. energy conservation	Base

Infrastructure or non infrastructure	Headworks	Expenditure purpose
Non-infra	Renewal/refurbishment/size for size element of other works/rationalisation;	Base
Non-infra	Elements required solely to comply with legal quality obligations that result in headworks of current capacity capable of treating effluent to the required quality standards.	Qual
Non-infra	Renewal/new instrumentation control and automation even if it improves treatment quality.	Base
	Works to comply with health and safety legislation	Base
Infra	- below ground;	
Non-infra	- above ground.	
	Works to improve efficiency e.g. energy conservation	Base
Infra	- below ground;	
Non-infra	- above ground.	

Infrastructure or non infrastructure	Sewage treatment works	Expenditure purpose
	Include all sewage treatment works with one or more treatment stages, interstage pumping facilities and sludge holding tanks with provision for dewatering. New treatment works/work carried out to existing works to increase treatment facilities/capacity	
Non-infra	- size for size element and rationalisation;	Base
Non-infra	- element required solely to comply with legal quality obligations.	Qual
Non-infra	New instrumentation control and automation to improve operational efficiency even if it improves treatment quality, renewals of existing treatment works and instrumentation control and automation size for size element of other work carried out to existing works to improve treatment facilities/capacity.	Base
Non-infra	Works to comply with health and safety legislation.	Base
Non-infra	Works to improve efficiency e.g. energy conservation	Base

Infrastructure or non infrastructure	Sludge treatment	Expenditure purpose
	All sludge treatment plant which changes the nature of the raw sludge prior to its final disposal. Sludge holding tanks are included under Sewage Treatment Works. New/enhanced treatment/storage facilities, renewal of existing sludge treatment works, pumping stations:	
Non-infra	- size for size element and rationalisation;	Base
Non-infra	- element required solely to comply with new legal quality obligations either on the disposal of existing amounts of sludge or for the increased amounts of sludge resulting from more exacting effluent quality standards.	Qual
Non-infra	New instrumentation control and automation to improve operational efficiency even if improves capacity.	Base
Non-infra	Works to comply with health and safety legislation.	Base
Non-infra	Works to improve efficiency e.g. energy conservation.	Base

Infrastructure or non infrastructure	Sludge disposal (excluding vehicles)	Expenditure purpose
	Include all plant and transfer arrangements associated with the final disposal of treated sludge. Sludge disposal vehicles are included under Management and General.	
Infra	Maintenance of sludge pipelines.	Base
Non-infra	Maintenance of existing headwork's, sludge disposal plant.	Base
	.Works to comply with health and safety legislation	Base
Infra	- below ground;	
Non-infra	- above ground.	
	Works to improve efficiency e.g. energy conservation	Base
Infra	- below ground;	
Non-infra	- above ground	

Infrastructure or non infrastructure	Pumping stations	Expenditure purpose
Non-infra	All pumping stations associated with the sewer system and terminal pumping stations. Renewal/rationalisation of structures, mechanical, electrical and telemetry equipment.	Base
Non-infra	Works to comply with health and safety legislation.	Base
Non-infra	Works to improve efficiency e.g. energy conservation	Base

Infrastructure or non infrastructure	Management and general – wastewater collection service	Expenditure purpose
Infra	General mapping and updating of network records and associated improvements in efficiency.	Base
Non-infra	New/extensions to existing land, buildings, laboratories, depots and workshops.	Base
Non-infra	New/renewal of telemetry/communications systems, leakage control/monitoring equipment, analytical/sampling plant and equipment, land, buildings, laboratories, depots and workshops.	Base
Non-infra	New/renewal of computers (including software), vehicles and mobile plant.	Base
Non-infra	Recreation/conservation.	Base
Non-infra	Site security.	Base
Non-infra	Works to comply with Health and Safety legislation.	Base
Non-infra	Works to improve efficiency e.g. energy conservation	Base