

WWRO, Kosovo

Water Supply Tariff Policy Options

The following table sets out many policy options available to the WWRO for the adoption as a publicly declared Tariff Policy for water supply. They are not all mutually exclusive and the selection of one option may impact upon the choice of other options elsewhere in the policy.

Broad category	Sub-category	Policy option	Advantages	Disadvantages	WWRO implications	Preferred position
Social fairness	Service provider's role with respect to social responsibility (To what extent is the responsibility for social redistribution of wealth fall upon the service provider and to what extent does government have a role?)	The Government to be responsible for providing financial support to the economically disadvantaged.	2004/49 10.1 (f) sets out the responsibility of government and local institutions to provide such support. Protects the financial integrity of the service providers. Economically efficient. By supporting the poorest the tariffs could be allowed to increase to the affordability ceiling of the remaining customers leading towards cost recovery.	Imposes financial burdens on government and local institutions that will need to be met by fiscal means.	Simple to regulate.	The Government to take responsibility for the provision of financial support to the economically disadvantaged thus allowing service providers to operate on a fully commercial and economically efficient basis. Government policy decision, not WWRO.
		The service providers to provide financial support to the economically disadvantaged	Relieves government of the financial burdens.	Undermines the financial integrity of the service providers. Creates market distortions and is economically inefficient (cross subsidies). Discourages investment in the sector, especially in areas serving the economically disadvantaged	Complex regulation in determining the degree to which cross subsidy mechanisms can be applied and how they are monitored and enforced. WWRO decisions vulnerable to challenge.	

Broad category	Sub-category	Policy option	Advantages	Disadvantages	WWRO implications	Preferred position
Social fairness (continued)	Uniformity of tariffs (To what extent should the tariffs be uniform by region – not by customer type or category?)	Uniform tariffs throughout the service provider's defined area of supply.	Automatic cross-subsidy from larger and often wealthier communities where the cost of service provision is generally low (through economies of scale) to poorer small communities where the cost of service provision is high.	Economically inefficient in that in some areas the revenues may not cover the costs of supply whereas in others the revenues may substantially exceed the costs of supply. May discourage economic use of water where water resources are stressed and the cost of service is high. May discourage investment in areas where the cost of service is high.	Simple to regulate based upon overall operator costs and revenue Further regulatory input is required to ensure that investment and service provision obligations are satisfied and that unprofitable areas are not unfairly discriminated against.	In the short to medium term the tariffs should be determined on the basis of uniform tariffs throughout a service provider's area of supply. However, the WWRO should leave open the opportunity for tariffs to be set on a case by case basis in the future when reporting systems are sufficiently robust to facilitate detailed analysis of costs and revenues determined on a town by town basis subject to a review of the implications and the appropriateness of such an approach.
		No uniformity of tariffs and each individual town or system may have its own tariffs to reflect its own costs.	Ensures investment in areas where the cost of service is high. Economically efficient with tariffs reflective of actual costs. Promotes investment in areas where the cost of service is high.	Social perceptions of unfairness. Wealthier customers in (generally in larger communities) may enjoy lower tariffs than their poorer neighbours in small communities through cost benefits of economies of scale. Complex accounting, monitoring and reporting systems to monitor costs on a town by town basis.	The number of schemes and towns would impose a high regulatory workload on the WWRO. Complex tariff determination procedures and vulnerability to challenge.	

Broad category	Sub-category	Policy option	Advantages	Disadvantages	WWRO implications	Preferred position
Social fairness (continued)	Customer groups (should there be different rates for different customer groups?)	Rates determined by cost of supply (e.g. high consumers of water such as industrial customers may enjoy lower prices than other customers)	Prices reflect cost of service and are therefore economically efficient.	Not pro-poor as any price reductions for large consumers will have to be made up by price increases by domestic consumers. Subject to pressure from large customers to reduce tariffs below cost reflective levels. Prices do not reflect affordability constraints, especially by the poor.	Regulatory oversight to ensure that price differentials do, in fact, reflect true costs of service and that no undue pressure is brought to bear on service provider or the operators that result in unfair cost burdens borne by other customer groups. Difficult for WWRO to sell this policy politically when trying to develop a pro-poor strategy.	In the short term tariffs should be set on the basis of affordability constraints but should move towards uniform tariffs in the medium term (say within five). In the longer term large scale individual customers, e.g. heavy industry and energy generation activities, may be able to negotiate reduced prices that are reflective of the real costs of supply. Thereafter such a system could be rolled out to medium sized customers.
		Similar rates for all customer groups	Automatic marginal cross subsidy from industrial to domestic customers. Partially pro-poor.	Pricing less efficient. Large consumers will be responsible for a greater share of profit and may therefore get preferential treatment to the detriment of other customer groups. Although improved, prices still do not reflect affordability constraints.	Regulation simplified although oversight still necessary to ensure that service is not discriminatory.	
		Prices for different customer groups to reflect affordability (e.g. commercial / industrial customers on higher tariffs than domestic customers)	Improved cross subsidy mechanisms. Very pro-poor.	Pricing economically inefficient. Service in favour of high water consumers may still persist.	WWRO to determine affordability constraints and to set relative tariffs, e.g. commercial and industrial tariffs to be x times higher than domestic tariffs, requiring extensive research. Regulatory oversight still necessary to ensure that service is not discriminatory.	

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Social fairness (continued)	Lifeline tariffs (should the tariff structure include a lifeline low consumption component to the tariff?)	Rising block tariff structure with lowest volume block set to reflect basic needs and affordability of the poorest sector of the population tariffs.	Poor and small water consumers receive benefit of low tariffs. Politically easy to sell to the public.	Very inefficient mechanism for social redistribution of wealth as all consumers, irrespective of income, benefit from the low lifeline tariff (some studies have shown that the actual benefit to the poor can be as low as 10% of the overall cross subsidy effect). Extremely difficult to administer in the case of shared connections, apartment blocks, whereby the benefit is equally apportioned equally regardless of individual household consumption. Discourages personal investment in water conservation measures. Discourages investment in low income areas where the returns from the lifeline tariff are very low. Complexity in administration by the operator that may add to costs.	High degree of regulatory input in determining the lifeline rate. Regulatory decision making subject to political influences in determining the lifeline consumption and the lifeline price.	The structure of tariffs should be uniform as per the current system. However, this would require a change in the current legislation that currently requires a lifeline tariff system to be applied.
		Uniform tariff irrespective of consumption	Significantly more efficient. Does not discriminate against shared connections. Does not discourage (as much) personal investment in improved hygiene, e.g. flush toilets. May encourage more investment in poorer areas where the returns are improved.	Less easy to sell politically. Poor consumers with low levels of water consumption will experience increased tariffs (although the increase is expected to be marginal)	Easy to regulate with less dependence on socio-economic analysis.	

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Social fairness (continued)	Fixed monthly charges (should service providers include a monthly charge to cover specific fixed costs?)	To apply a fixed monthly charge to the tariff to reflect a proportion of the fixed costs, e.g. meter reading, billing and revenue collection	Financially efficient.	Not pro-poor as low consumption customers will pay more per m ³ than high consuming customers.	Regulation required to determine appropriate level of fixed charges.	Retain the current system of a nominal fixed charge component, the value of which is limited to the costs of the customer services activities, e.g. meter reading, meter replacement, but in the medium term, encourage the adoption of an alternative charging system that allows customers to choose a higher tariff with no fixed charge.
		No fixed charges within the monthly tariff structure	Pro-poor	Marginally less efficient	Simpler to regulate	
		Fixed charges employed but customers have the option to switch to a higher volumetric tariff in exchange for the removal of the fixed charge	Financially efficiency Pro-poor	Complex to administer. Requires sophisticated customer services facilities	Complex regulatory demands in reporting requirements and analysis. Demands on regulatory communications and customer services activities.	
Compliance with service standards	Levels of service (should the service provider levy different tariffs for different levels of service, e.g. low pressure or low water quality?)	Uniform tariffs irrespective of level of service	Simplicity in administration. May better reflect the true unit cost of service	Difficult to justify same tariff for a lower level of service	Simple to regulate	Apply uniform tariffs irrespective of differences in level of service but the WWRO to employ its regulatory powers to enforce compliance with minimum quality and service standards.
		Tariffs to reflect levels of service irrespective of unit costs of supply, i.e. low level of service lower tariff.	Encourages investment in improving levels of service (higher potential revenues).	Tariffs may not reflect true unit costs of supply. May be in conflict with the enforcement of minimum standards.	Very complex regulatory demands and vulnerable to challenge.	
Service expansion	Connection fees (what should be the arrangements for financing new connections?)	Imposition of connection fees	Financially efficient.	Not pro-poor as the barrier to access to water supply shown to be the connection fee as opposed to the volumetric tariff.	Simple to regulate	Impose connection fees to cover the costs of the saddle, service pipe, valve, meter etc. plus administration fees etc. as employed at present. Such fees may be paid by government of donors agencies for social cases.
		Subsidised connection fees through increased volumetric tariffs	Pro-poor as the primary barrier to access is eased or removed altogether.	Will result in higher volumetric tariffs although effect will be minimal when there is almost full service coverage already. Existing customers recently connected to the system may feel cheated.	Policy not so easy to sell, especially to existing customers. Simple to regulate.	
		Direct subsidies from government (or donor agencies) to the poor (social cases) for connections to the system.	Pro-poor. Has little or no impact on existing tariffs	Financial burden on government and/or donor agencies.	Marginal additional regulatory input required to ensure subsidies are properly directed towards the poor.	

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Service expansion (continued)	Infrastructure development charges (should new development activities be responsible for the costs of service charges on new customers to reflect the costs of system expansion over and above the existing tariff?)	Adoption of infrastructure charge for new connections. This includes the costs of off-site reinforcement, e.g. expansion of the network to facilitate the new properties or developments.	Economically efficient. Ensures that system expansion costs (determined on a long run marginal cost basis or similar) are borne by the beneficiaries alone. Existing customers protected from financing service expansion for the benefit of others. Factored into property prices. Provides a revenue stream for financing capital investment in service expansion.	It presupposes that existing customers have paid their infrastructure development costs in full whereas through poor financial management and subsidised tariffs this may not have been the case. Not pro-poor in that those without a connection are, in the main, less wealthy than those with a connection and will end up paying a higher charge.	Politically very difficult to sell as a fair means of recovering the costs of system development. Complex regulation in setting infrastructure charges and resolving disputes. Mechanisms required to spread the costs over a reasonable period, e.g. 10 years.	In the short term the imposition of infrastructure development charges may prove problematic and should not be immediately adopted. However, in the medium term (say five years) WWRO should consider the imposition of infrastructure development charges for commercial and industrial developments with a view to expanding such a system to domestic customers in the longer term, say 10 to 15 years.
		No infrastructure charge (all system development costs borne by all consumers, existing and future, by incorporating it in the volumetric tariff)	Pro-poor with all system expansion costs borne by the whole community. Marginally less efficient economically.	Will undoubtedly result in increased charges for existing customers for the benefit of new customers. Existing customers will, in effect, be financing	Easy to regulate.	
		Compromise solution with infrastructure development charges applicable to commercial and industrial concerns only.	Economically efficient. Satisfies political concerns Protects the poor against high infrastructure charges over and above connection fees.	Effectively a cross subsidy from the industrial and commercial users to the domestic although the effect may be quite limited.	Simpler to regulate than universal infrastructure development charging system.	

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Environment	Water use control (should WWRO employ tariffs as a means to control water demand?)	Imposition of high tariffs to restrict consumption.	Protects water resources. Frees up supplies to a wider customer base. Provides finance for service expansion Disincentive against water wastage	Not pro-poor. May result in tariffs higher than they would otherwise need to be resulting in excess profits for service provider and/or operators. Complex calculations for determination of price elasticity of demand and other factors Service providers may encourage customers to use more water than they need	Regulatory control necessary to protect against excess profiteering by service provider and/or operators. Measures may be necessary to 'tax' service provider and/or operators and divert excess funds to environmental activities.	WWRO should not employ demand management tariffs in the short term (up to five years) although should leave the option open for the concept to be adopted in the future once the WWRO has commissioned research into the necessity and viability of demand management.
		Imposition of excess consumption tariffs to restrict excessive demand but allowing cost of service tariffs for normal consumption.	Protects normal consumption customers Provides finance for service expansion Disincentive against water wastage	May result in tariffs higher than they would otherwise need to be resulting in excess profits for service provider and/or operators. Complex long-run discounted cash flow calculations for determination marginal costs of resource expansion.	Complex regulatory calculations	
		No demand management tariffs	Simple to regulate Tariffs kept low	Does not promote efficient water use and may encourage waste. May expose customers to water shortages and restrictions	Simple to regulate	
	Abstraction charges (should the service providers be charged for raw water abstraction)	Imposition of unit charges on the service provider and/or operators for raw water abstraction	Promotes water loss control through an incentive to reducing water abstraction Can finance environmental protection measures.	Imposes higher tariffs on customers Normally administered through environmental protection agencies for which regular consultation and dialogue required	Normally regulated by others with no WWRO involvement other than allowing for such charges to be passed through to the tariff	This is a decision for government and falls outside the remit of the WWRO tariff policy. However, the WWRO would support the imposition of abstraction charges in principle as a means to encourage more efficient water loss reduction.
		No abstraction charges	Lower tariffs for customers	Does not promote water loss control activities	No regulation required	

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Environment (continued)	Water losses (what position should the regulator take with respect to the financing of water loss control activities through the tariffs?)	Water loss control targets set to 'economic levels of leakage', i.e. loss control only taken to levels that are financially viable.	Self regulating through profit incentives.	May not protect water resources. Very difficult for operators to determine what exactly is the 'economic level of leakage'.	The 'economic level of leakage' should also take into account the benefits of deferred capital investment in water resource exploitation. Complex regulatory input is required to determine the effects and to incorporate it into the cost-benefit calculation.	In the short term WWRO should set targets for levels of service and non-revenue water although in the medium to longer term the target should be the 'economic level of leakage' WWRO to monitor loss control activities to ensure that losses are kept to economic levels and allowed for in the tariff. The tariff determination method should carefully consider the balance between the costs of development of new water resources against the costs of loss control.
		WWRO to set targets of water loss control based upon environmental considerations as opposed to cost effectiveness	Protects water resources from unnecessary over-exploitation.	Economically inefficient	WWRO to work with environmental protection agencies and central government water resource planning authorities to determine appropriate water loss targets.	
	Direct environmental protection (should tariffs be set at levels to ensure compliance with all environmental obligations and if so by when?).	Full and immediate compliance with environmental obligations.	Protection of the environment.	Significant capital investment required with adverse tariff implications.	Capital investment to meet compliance to be incorporated in tariffs.	Compliance with environmental obligations to be introduced in accordance with a timetable set by government during which time the utilities can undertake the investment necessary and the costs can be introduced to the tariff gradually as such investment takes place
		Time based targets for compliance	Less impact on tariffs.	Short term environmental damages	WWRO to work with environmental protection agencies to determine what obligations can be relaxed in the short term.	

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Full cost recovery	Definition (what is meant by full cost recovery)	Accounting definition on the basis of costs as defined in pure accounting terms equalised by cash revenues	Simple to determine based upon strict but conventional accounting rules	Can result in tariffs too low (cost may not capture the effects of inflation in areas such as depreciation etc.) or too high (if accounting provisions not reflective of real needs of the business)	Simple regulation inputs but required to be undertaken annually	In the short term full cost recovery to be defined as revenues sufficient for the utilities to finance their activities. In the medium to longer term, tariffs to include a fair return on capital should the nature of the corporate structure of the utilities develop to commercial profit generating bodies.	
		Cash revenues sufficient for the utilities to finance their activities in compliance with their quality and service obligations	Tariffs more reflective of costs and need only be increased over time as the cash flow demands of capital maintenance increases. Based upon performance targets (ex-anti) basis and can deliver efficiency improvements	Utilities may appear to be reporting losses in the early years and may discourage investment in the sector.	More complex regulation based upon asset management planning		
		Cash revenues sufficient for the utilities to finance their activities in compliance with their quality and service obligations and an allowance for a return on capital (OFWAT definition)	Attractive for private sector investment in the sector	Can only be applied once the utilities are profitable	Determination of regulatory capital values and appropriate returns on capital.		
	Time based cost recovery (what is the timetable for achieving full cost recovery?)	Short term cost recovery (annual)	Immediate elimination of subsidies Attractive to investors	Will result in price shocks beyond the affordability constraints Results in financing existing inefficiencies	Simple to regulate		Cost recovery should be a medium to long term objective although the asset management definition of cost recovery can, in theory, allow for cost recovery in the short term. As a minimum revenue should cover all direct operating costs and allow for the costs of capital maintenance necessary to maintain base level of service.
		Medium to long term cost recovery, e.g. 5 to 10 years.	Smooths tariffs to a near uniform rate (or steadily rising rate) easing affordability constraints. Allows time for improved efficiency to be attained Eliminates price shocks.	Reduces profitability in early years (losses may even be reported) with higher profitability in later years. Different utilities may progress at different rates. Risk of political interference that resists higher profits in later years needed to replace previous losses.	More complex regulation and subject to political influence.		

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Full cost recovery (continued)	Efficiency expectations including revenue collection performance (how should the expected improvements in efficiency be determined?)	Operating and capital efficiency expectations set by WWRO and incorporated in tariff determinations.	Promotes improved efficiency in service provider and operators.	Can damage the financial standing of service provider if efficiency targets set too high and not satisfied.	Professional judgement for determination of reasonable efficiency targets.	WWRO should set the efficiency improvement expectations in consultation with the utilities, KTA (or their successor institutions) and their respective supervisory boards. The targets should be realistic but nonetheless challenging
		Service provider to set out its own efficiency expectations.	Service provider risk.	May result in low expectations of efficiency resulting in tariffs higher than they would otherwise be.	Limited WWRO regulation input.	
	Capital investment (how should capital investment be recovered)	Recovered annually through historic cost depreciation	Assumes an accounting definition of full cost recovery Keeps tariffs lower than other methods Simple to determine	Does not work for long life assets in water supply as the effects of inflation are not covered. Insufficient funding for capital maintenance and levels of service could fall in the long run. Contrary to the definition of cash revenues sufficient for the utilities to finance their activities	Difficult to pressure the utilities into improving performance as capital maintenance financing will be inadequate for needs. Calculation of depreciation provision is simple. Dilemma as to whether or not to allow for recovery of back-log of depreciation from previous years.	Although demanding on the regulator the capital investment recovery process should be based on the asset management approach as this delivers low tariffs to start with and fits comfortably with the full cost recovery definition of cash revenues sufficient for the utilities to finance their activities
		Recovered through the tariff annually by current cost depreciation	Adequate provisions for capital maintenance incorporated in tariff.	If depreciation recovered in full every year then result is short term cost recovery giving rise to high tariffs in early years and lower tariffs in later years. Contrary to the asset management full cost recovery definition.	Simple one year tariff review mechanism but incorporating inflation index calculation. Dilemma as to whether or not to allow for recovery of back-log of depreciation from previous years.	
		Depreciation recovered on a long term basis through a long-term cost recovery calculation.	Smooths tariffs to a near uniform rate (or steadily rising rate) easing affordability constraints. Eliminates price shocks.	Reduces profitability in early years (losses may even be reported) with higher profitability in later years.	Requires periodic tariff reviews with automatic inflation related increases between review periods.	
		Apply asset management system for underground assets and CC depreciation for other assets	Keeps tariffs low and allows for a gradual increase in tariffs as capital maintenance demands grow	Complex calculations using regulatory accounting guidelines	Demanding regulatory reporting and monitoring	

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Full cost recovery (continued)	Grants and gifted assets (how should the WWRO treat assets financed by grants and soft loans)	Consider all assets to be treated identically irrespective of how they are financed	Simple to determine	Effectively gives the service provider returns on an investment it has not made resulting in higher tariffs than they would otherwise be	WWRO could be subject to challenge by allowing returns greater than they would need to be.	The WWRO should treat assets funded by grants and gifted assets differently from those assets financed through the service provider's financial resources .The WWRO should apply rules consistent with the asset management approach.
		For below ground assets do not add to regulatory capital value and for above ground assets apply depreciation but treat the grant as income spread over the life of the asset	Establishes a fair basis for the determination of returns on capital based upon actual investments made by the operating entity	More complex to determine the value of regulatory capital value.	Less open to challenge.	
Capital structure	General principles (should WWRO consider capital structure of the utilities in the tariff determination process)	WWRO to take into account capital structure of service provider in determining tariffs, i.e. to incorporate debt interest and repayment of principal in the tariff with returns on equity determined by the WWRO.	Protects service provider's position with respect to risk and cash flow.	Contrary to conventional economic theory that the capital structure has no direct bearing on the performance of a business. Subject to price fluctuation if capital structure varied.	Complex financial analysis.	Until there is full cost recovery the WWRO should consider capital structure in the tariff with respect to financing any existing debt obligations and maintaining cash flow However, once full cost recovery is achieved the WWRO should consider the capital structure of the utilities as a matter for their management and no longer considered as a regulatory concern.
		WWRO to consider capital structure as an internal service provider management issue only, i.e. for WWRO to determine an appropriate return on total capital from which service provider can manage its debt service obligations.	In accordance with conventional economic theory that the capital structure has no bearing on the operating performance of the business (other than tax). Promotes price stability irrespective of variations in capital structure.	Service provider is exposed to risk related to borrowing.	Financial analysis simplified	

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Capital value and return on capital	Definition of capital value upon which a return can be earned (what is the WWRO position as to the regulatory capital value of the service providers?)	Capital value determined as the accounting book value of assets	Simple to determine based upon financial statements (asset register)	Does not capture the real value of the investments after allowing for inflation May include assets gifted or freely inherited and it would be improper to allow a return on capital on such assets	Would have to allow for complex calculations in determining an appropriate return on capital that allows for a mixture of funding sources.	The WWRO should establish an initial regulatory capital value which need not bear any relation to the book value but rather reflects the actual level of investment (including debt financed investment). All new investments should be added to the capital base subject to provisions related to grant funded and gifted assets. Special consideration is required with respect to underground assets where different rules may apply.
		Capital value determined as the accounting book value of assets adjusted for inflation	Simple to determine based upon financial statements (asset register) adjusted for current cost accounting purposes	May include assets gifted or freely inherited and it would be improper to allow a return on capital on such assets	As above	
		To determine an initial regulatory capital value based upon level of actual investment and to add new investments to the base and deduct depreciation and disposed of assets in accordance with the asset management planning concept.	Delivers lower tariffs than other methods. Provides a basis for the fair value of assets that reflects the real costs of investment to the operator. Provides a basis for the adoption of the asset management approach to tariff determinations. Determination of the allowable return on capital is simplified	Requires the establishment of regulatory accounting guidelines setting out the methodology in detail	Once initially set up it is easy for the regulator to maintain a register of the regulatory capital value of the business	

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Capital value and return on capital (continued)	Return on capital (what is the WWRO position with respect to return on capital?)	WWRO to not consider return on capital as an allowable portion of the tariff	Minimises tariffs Simple in that there is no real issue with regulatory capital value determination	Does not cover the cost of debt (interest) No finance available for service improvements or expansion Unable to finance repayment of principal debt	While state-owned the government may elect not to expect any returns on capital and therefore the WWRO would be obliged to adopt this model.	Until such time that the service providers reach full cost recovery the issue of what is a fair return on capital is superfluous. In the short term the return on capital should be limited to cash flow demands only
		WWRO to determine the return on capital on the basis of market expectations utilising economic tools such as the Capital Asset Pricing Model (CAPM).	Attractive to internal and external private investment in the sector.	Adverse tariff implications. Should only be used if private sector investment is employed, i.e. inappropriate to expect private sector returns on capital with public sector levels of inefficiency.	Complex rules on the determination of what a fair return on capital is but it is possible to take the lead from exercises undertaken elsewhere in the world where returns have been determined, e.g. OFWAT	However, in the medium to longer term where private sector participation initiatives in the form of concessions or similar may be undertaken the WWRO may set private sector tariffs, in which case a move towards the CAPM or similar may be appropriate.
		WWRO to establish a return on capital based upon minimum cash flow requirements.	Minimises tariffs Attractive for government and donor investment in the sector.	Unattractive for internal and external private investment in the sector.	May be appropriate for the current service provider model. Government, as the principal shareholder, may state its position with regard to what it requires in the way of a return on capital.	
	Return on capital and taxation (what is the WWRO position regarding taxes?)	To determine tariffs on the basis of a 'post tax' return on capital.	Easier to determine market expectations for return on capital on a 'post tax' basis as opposed to a 'pre-tax' basis.	Calculation of tax obligations in advance of tariff determinations.	Nil	Only until the private sector is operating services there is no need to consider the taxation issue other than to feed the value of taxes into the cost base. Once the private sector is operating in the system the WWRO should examine then what is the most appropriate approach.
		To determine tariffs on a 'pre-tax' return on capital.	Simple calculation without the need to estimate tax obligations in advance	Determination of market expectations for a pre-tax return on capital more complex.	Nil	

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Process	Review periods (how long should the time between major tariff reviews be?)	WWRO to review tariffs annually.	Ensures that tariffs track costs.	No incentive for improved efficiency as any benefits will be lost in the next review. Results in high tariffs in early years with tariffs falling in later years. Unattractive for private investors.	Simple to regulate.	For the year 2007/8 the tariffs should be determined on an annual basis in which time the tariff policy can be developed with a complete set of rules that can facilitate longer periods between reviews.
		WWRO to review tariffs on a periodic basis (say every 3 to 5 years) with allowances for interim automatic adjustments for inflation and other factors.	Profit incentives for improved efficiency. Tariff smoothing possible. Attractive for investment.	Service provider may get away with higher than intended profits.	WWRO to employ more complex tariff determination methods.	