TS1A: Define criteria, rules and processes for tariff setting, tariff structure, approval, and service invoicing

REGULATORY FUNCTION: **TARIFF SETTING**	**TS1A**

OBJECTIVE TS1

Tariff system, relevant procedures and responsibilities are validated

ACTION CARD TS1A

DEFINE CRITERIA, RULES AND PROCESSES FOR TARIFF SETTING, TARIFF STRUCTURE, APPROVAL AND SERVICE INVOICING

COST: High **FREQUENCY:** One time

TARGET GROUPS: Regulators, relevant authorities and policy makers, parliament, consumer associations

DESCRIPTION

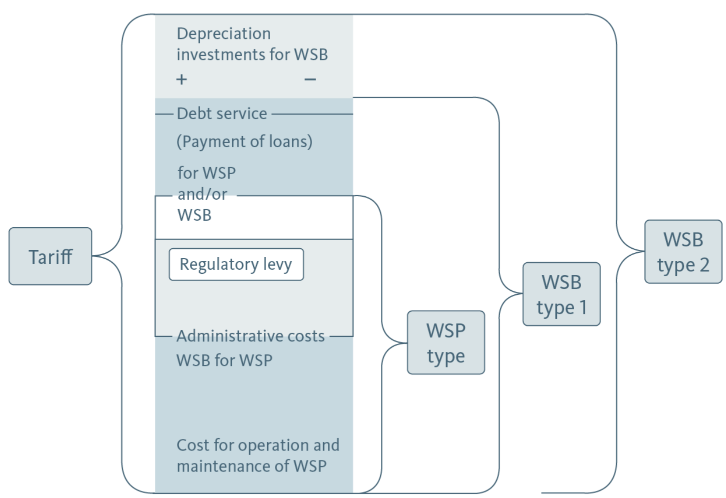
Depending on the regulated price modality, tariffs could be either set or approved by regulators. Since both cases require transparency, regulators must establish clear criteria and procedure for price setting. These guidelines usually rely on basic regulatory principles. For example, they are often based on the principles of recovery of investment and operating costs, efficiency, equity, sustainable use of water resources and infrastructure, consumer protection interests and their economic accessibility. Setting a price for water and sanitation as services of public interest, imply the broad participation of all relevant stakeholders. Tariff guidelines could for instance, impose mandatory dialogue with consumers and validation by a national parliament, making the tariffs enforceable.

EXPECTED OUTCOMES

- There is a transparency and predictability of tariffs, where every social group pays for delivered services.
- There is established equity among different user groups through tariffs, which are based on their respective socio-economic situation.
- There is sustainable operation and investment management for operators and policy makers through tariffs, which adequately reflect the optimal cost of the delivered services.

EXAMPLE: KENYA

In **Kenya**, the Water Services Regulatory Board (WASREB) is required to evaluate and recommend water and sewerage tariffs to the water service providers at county level, and approve the imposition of such tariffs in line with consumer protection standards and the interests of other stakeholder. There are three kinds of tariff (type I, II and III) according to the type of cost that each cover. Type I covers operational and maintenance costs, with some basic administrative ones. Type II incudes the above plus the repayment of existing debts. Finally, type III tariffs include all the costs of other tariffs with the addition of the costs of investments and depreciation (full cost recovery). This tariff structure ensures access to all, with differentiated prices for different socio-economic groups.



LINKS
Guidelines on tariffs in Kenya: https://wasreb.go.ke/downloads/Tariff%20guidelines.pdf
INTERNAL CAPACITIES NEEDED AND THE ROLE OF PARTNERS
Setting tariffs has proved to be one of the most complex and delicate regulatory powers. In consequence, it is necessary for regulators to perform it with high levels of skills, which include financial, planning, hydrological, and with the vision of sustainable development. A solid understanding can be achieved through training on different tariff models, and this will help regulators to better align public needs with their sector visions. Since this regulatory power attracts by far the most political attention, it is advisable to conceive tariff guidelines with the support of a neutral actor. Both public and private sector actors should contribute their inputs to the process through facilitation by an impartial external partner.