

## TS2C: Verify efficiency of operators

REGULATORY FUNCTION: TARIFF SETTING		TS2C
<b>OBJECTIVE TS2</b> Compliance with approved tariffs and performance is monitored through financial and operational information received from operators	<b>ACTION CARD TS2C</b>  <h1>VERIFY THE EFFICIENCY OF OPERATORS</h1>	
<b>COST:</b> High <b>FREQUENCY:</b> Regular <b>TARGET GROUPS:</b> Regulators, service operators, individual and institutional consumers		
<b>DESCRIPTION</b> As tariff collection may encounter mistakes, regulators regularly and randomly inspect tariff accuracy using different indicators. In accordance, regulators verify other economic efficiency indicators and ensure that the approved tariffs correspond to actual operator expenditures. This action is commonly performed through impartial inspection procedures, with the main objective being to correct any kind of misconduct in a timely manner. All licensed operators, being subject to these inspections, are obliged to cooperate and provide all required information related to their compliance with the approved tariffs. Failure to do so, or frequent tariff overcharge, may affect the issue of future operator licences.		
<b>EXPECTED OUTCOMES</b> <ul style="list-style-type: none"> <li>• Only adequate tariffs are validated, while those in excess are reimbursed to consumers.</li> <li>• Non-compliance with indicators is used by regulators when issuing operating licences.</li> <li>• Consumers are only charged for services that are delivered.</li> </ul>		
<b>EXAMPLE: TANZANIA</b> In <b>Tanzania</b> , some financial indicators that the Energy and Water Utilities Regulatory Authority (EWURA) uses to assess water supply operators are as follows.		
<b>INDICATOR</b>	<b>DEFINITION</b>	<b>UNIT</b>
<b>Administration costs per m<sup>3</sup> of water produced</b>	Total administration costs (TZS) / total amount of water produced (m <sup>3</sup> ).	TZS/m <sup>3</sup>
<b>Energy consumption</b>	Energy consumption during the assessment period (kWh) / total amount of water produced (m <sup>3</sup> ).	kWh/m <sup>3</sup>
<b>Operating ratio</b>	Ratio of operating costs to operating revenues. Operational costs include all expenses together with depreciation and interests costs (but excluding debt service payments). Sound national management requires that this ratio should be less than 1.	Ratio
<b>Personnel expenditure per m<sup>3</sup> of water produced</b>	The ratio of total personnel expenditure (TZS) to the total amount of water produced (m <sup>3</sup> )	TZS/m <sup>3</sup>
<b>Personnel expenditure as a percentage of current collection from water and sewerage bills</b>	Total personnel expenditure in (TZS) expressed as a percentage of total collection from current water and sewerage bills plus collections from other water and sewerage related services (excluding grants and subsidies).	%
<b>Staff/1000 water and sewerage connections</b>	This indicator measures staffing level and is calculated as the ratio of total personnel to total number of water and sewerage connections. Best practice is below 5	Staff / 1000 connections
<b>Working ratio</b>	This is the ratio of operational expenses / operational revenue. Operational expenses do not include depreciation, interest and debt service. Sound national management requires that this ratio should be well below 1.	Ratio

**LINKS**

EWURA performance indicators: <http://www.ewura.go.tz/wp-content/uploads/2018/06/EWURA-REGIONAL-WATER-UTILITIES-PERFORMANCE-REPORT-2016-17.pdf>

**INTERNAL CAPACITIES NEEDED AND THE ROLE OF PARTNERS**

A range of administrative, legal, and inspection skills necessary to complete this action obliges regulators to build their internal capacity through training, often seeking support from other national institutions or development partners. Judiciary institutions can for instance, use their expertise in developing inspection methodology. Development partners can support regulators through training, and the establishment of indicators and implementation procedures. Regulators' staff must be trained on how to proceed with the checks, which indicators to analyse, and how to assess misconduct and calculate respective reimbursements.