

Regulator of Water Services

The Chilean Water Sector and the Water
Services Regulator

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Historical Overview

- **Before 1977.** Both the urban and rural sectors had multiple companies, overlapping functions, lack of financial and administrative autonomy, lack of coordinated planning.
- **First institutional transformation (1977):** the National Service of Sanitary Works is created (SENDOS) to integrate the previous institutions. SENDOS constituted a National Directorate and eleven Regional Directorates. 2 more companies - EMOS and ESVAL - were created in the urban areas.

Historical Overview

- From 1977-80s: The State had national jurisdiction. Both operational and regulatory responsibilities were in a single institution. Increases of coverage and other progress (IADB)
- Through the end of the 1980s: cease in development led to redefining the role of the State in the water sector. The responsibility for service provision was delegated to a subsidiary.
- 1988: Legislation was passed for the second institutional transformation.

Legal System

- **General Water Law:** principles for operation and concessioning of service.
- **Tariff law:** principles for setting tariffs and collections.
- **Law Creating the Regulator.**
- **Subsidy Law.** Establishing principles for subsidizing potable water consumption and sewerage serve.
- **Law creating State Enterprises.**

In place until the present

Institutional Change since 1990

- Structural reform of the market and establishment of the regulatory framework.
- Responsibility for regulation given to the State (Superintendent of Water Services)
- Responsibility for service provision given to joint-stock companies.
- Cost recovery tariff regime.

Progress

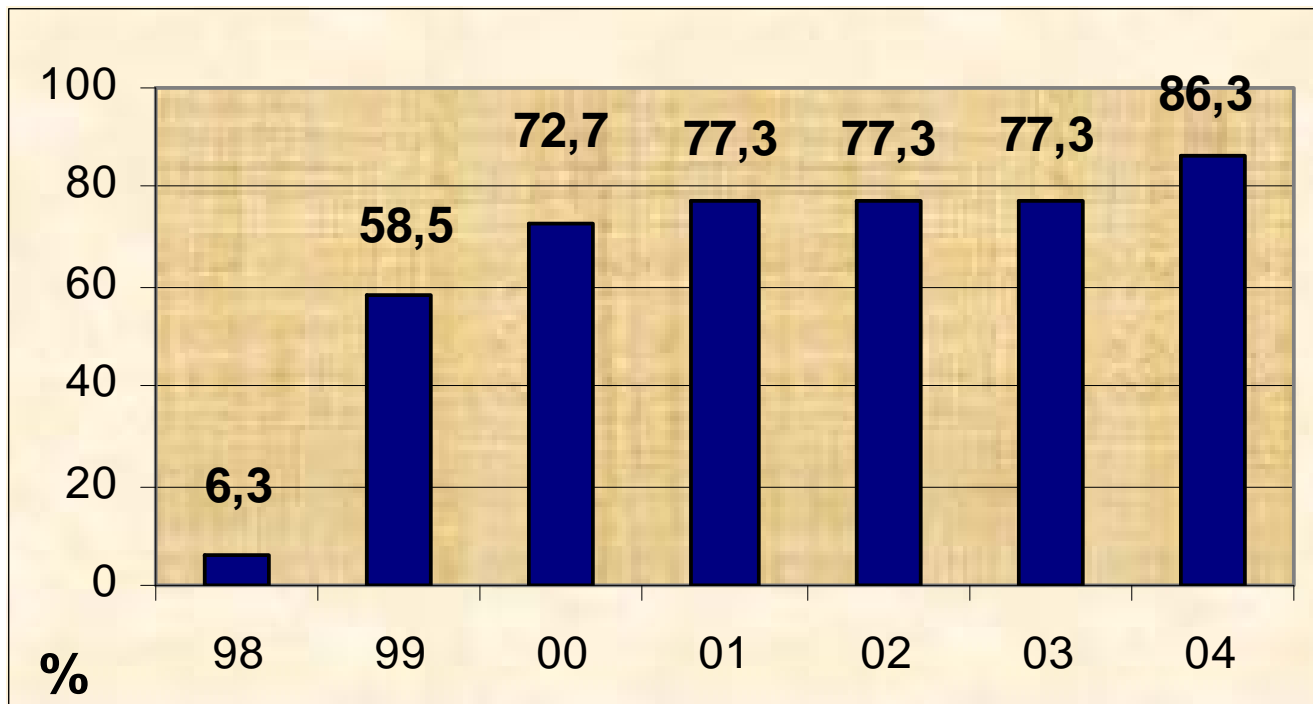
- **First Phase Regulatory Model (1990 - 1997):**
 - Companies mainly state-owned: 92%
 - Private participation limited to external support areas
 - Initial results indicated a need for improvement
- **Second Phase (Law 19.549 of 1998 modifies laws of the SISS, tariffs and concessions):**
 - Clearer and more stable regulatory framework through stronger institutions and regulations
 - Potential for majority private ownership
 - SISS restructured and strengthened.

Progress

*Private and
Concessioned
companies and %
customers*

State Companies	1990	2004
N°	13	3
% clients	93,7	8,6%

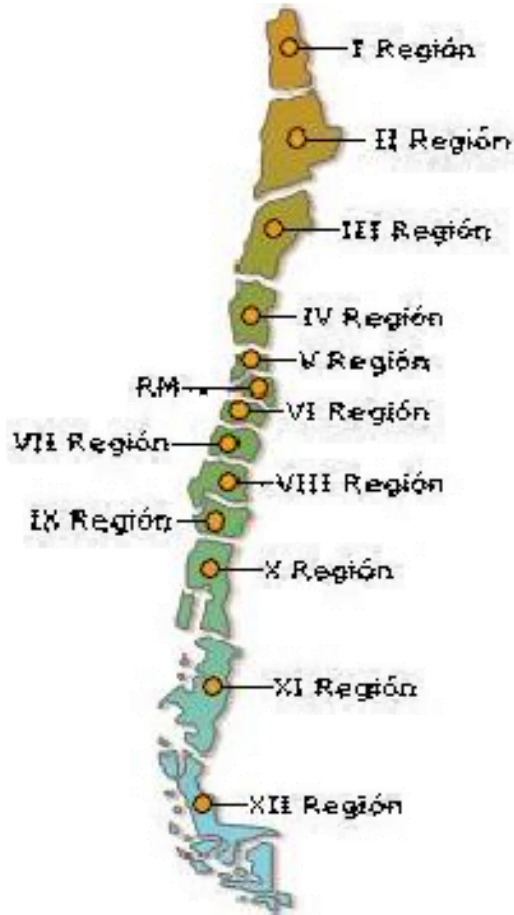
%



Coverage as of December 2003

- **Total Population in country:** 15,9 million
- **Urban Population:** 14,0 million
- **Urban coverage:** 99,8%
 - **Total customers:** 3.714.362
 - **Residential** 3.495.861 (94,1%)
 - **Commercial** 178.649 (4,8%)
 - **Industrial** 12.040 (0,3%)
 - **Other** 27.812 (0,8%)
 - **Coverage ALC. Urb.:** 94,7%
 - **Coverage T.A.S.:** 70,0%
 - **Projected:** 2004: 70,6%
2009: 97,5%

Ownership as of April 2004



Company ownership	N°	% of connections
Private	9	71,8%
Concessions	5	14,5%
State	3	8,6%
Municipal	1	4,5%
Cooperatives	1	0,1%
Remainder (private)	26	0,5%
Total	45	100,0%
Main companies	19	99,6%
Local companies	340	
Regions	13	

86,3%

Regulatory Framework - Key Aspects

- **Previous definition of privatization:** structure of the industry and regulatory framework
- **Legal Mandate:** stable and permanent
- **Removal of uncertainty:** Clearly established rules (regulations and laws) designed to minimize the discretion of the regulator and eliminate the potential for arbitrary decisions or decisions without legal basis.
- **Ownership:** regulated structure

Regulatory Framework - Key Aspects

- **Tariffs:** precise increases, clear and transparent methodology for calculating and adjusting. Established mechanism for arbitrating regulatory decisions.
- **Penalty System:** Causes and amounts of penalties clearly established. System of disincentives.
- **Appeal Mechanism:** Recourse possible.
- **Competition:** Possible for largest consumers.

Concession Framework

- **Management:** joint-stock, single-purpose company with right to exclusivity and specified obligations within service area.
- **Concession Decrees:** specify investment program, tariffs, guarantees, service area
- **Essential Operations or phased operations:** Production, Distribution, Collection and Treatment.
- **Indefinite Term.**
- **Total or Partial Transfer Possible.** Either ownership or operation of the concession.

Tariffs

- **Principles:**
 - Economic efficiency and flexibility
 - Understandable
 - Equitable
 - Financially Viable
- **Based on Model Company**
- **Incentives for innovation and efficiency.**
- **Direct subsidies administered by a new agency.**

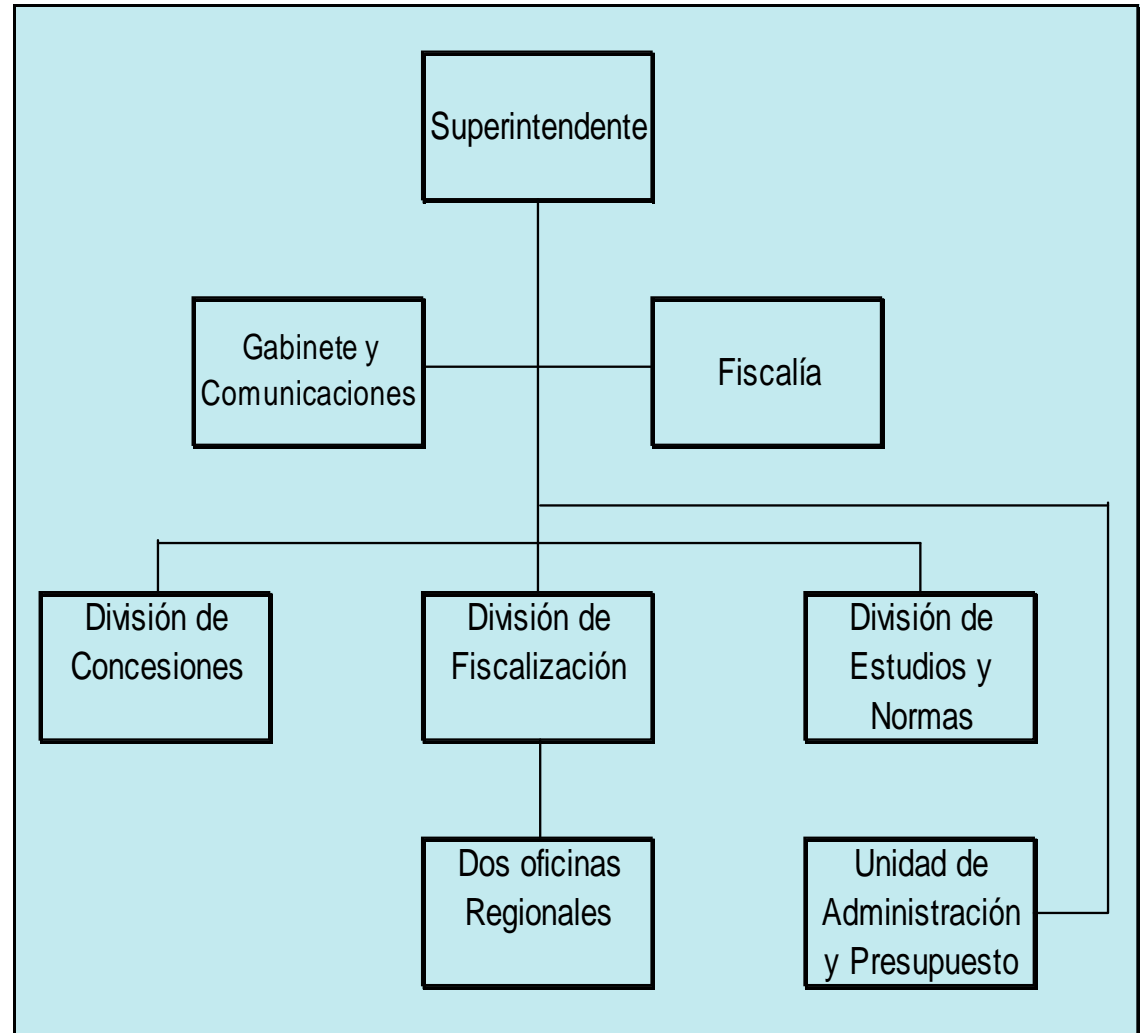
The Water Superintendent - SISS

- **Sectoral coverage:** different entities responsible for different aspects of public service regulation
- **National Competition:** uniform criteria
- **Regulation of Conflict of Interest:** The Superintendent and staff are restricted from using information to anyone's advantage.
- **Appeal Mechanism:** Court Appeals of Santiago
- **Superintendent:** named by the President of the Republic, with freedom to define the internal organization of the entity

SISS

Three units of line,
an Office of the
public prosecutor,
an administrative
support unit and an
advisory team.

139 civil employees
5 in regions



Principal Activities of SISS

- Application of concession framework
- Application and control of tariff process
- Monitoring of investment/lending
(cost/benefit of service, tariffs, and residual value of assets)
- Setting and controlling design, construction and operation standards.
- Application of sanctions

Oversight

- Regulation + Control = Effectiveness
- Oversight of the fulfillment of obligations, standards, agreements, lending terms

Oversight (Cont.)

- Political:
 - Focus on service quality and competition
 - Application of information technology
 - Identification of risk
 - External oversight of land use
 - Decentralization of agreements
 - Fairness and clarity in rules and penalties
 - Use of market information

Future of SISS

- **Tariff Processes:** Greater support and reduction of the information gap through the capture of information and validation of data.
- **Service Quality Indicators:** benchmarking among the companies providing transparent information on results.
- **Oversight:** Focus on system to detect weaknessness through automatic review of information.

Future of SISS

- **Access to consumers:** extended by means of agreements with Municipalities and National Consumer Association.
- **Management of the SISS:** improved management operating systems, professional team with skills in relevant areas, information system in final stages of development