



Lao People's Democratic Republic
Peace Independence Democracy Unity Prosperity

Ministry of Communication Transport

Post and Construction

No.: 5336/MCTPC

Vientiane Capital City, 26 April 2004

Ministerial Decision
On
Water Supply Tariff Policy of the Lao PDR

- Referring to the Prime Ministerial Decision No 37/PM dated 30 September 1999 on Management and Development of Water Supply Sector;
- Referring to the Prime Ministerial Decree No 66/PM dated 20 May 1999 on Organisation and Activities of the Ministry of Communication, Transport, Post and Construction.

The Minister of the Ministry of Communication, Transport, Post and Construction decides to set the Water Supply Tariff Policy of the Lao PDR as follows:

I. Objectives of the Water Supply Tariff Policy

The primary objective of the Water Supply Tariff Policy is to best meet the needs of the major stakeholders, namely:

- **Customers:** to provide the best value level of service that can be afforded by promoting maximum efficiency;
- **Operators:** To ensure that the financial integrity of the operating utility is maintained through effective cost recovery;
- **The environment:** To ensure that water resources are exploited at sustainable levels by promoting efficiency in the use of water;
- **National and local treasuries:** To reduce or remove the economic and financial burden of subsidies;
- **Society:** To promote social fairness;

- **International development agencies:** To promote economic development and poverty alleviation in a sustainable and affordable manner for all.

II. Water Tariff Policy

This Water Tariff Policy addresses 6 issues and contains 36 statements as follows:

1. Social fairness

Statement 1. Need for Wealth Redistribution

This Tariff Policy supports the need for wealth redistribution but allows a degree of regulatory discretion in its application recognising the differences in the operating environment.

Statement 2. Responsibility on Wealth Redistribution

This Water Supply Tariff Policy takes the medium to long-term position that wealth redistribution is a government function and not the responsibility of the water supply operators. However, in the short to medium-term these operators may have to shoulder some of this responsibility until alternative mechanisms are in place.

Statement 3. Use of Uniform Tariff Structure

Each water supply operator shall apply a uniform tariff structure throughout its area of supply. Different tariff structures for different service areas may be adopted provided the operator can demonstrate its appropriateness to the Water Supply Authority and are approved by the Minister for the Ministry of Communication Transport Post and Construction.

Statement 4. Tariff for Commercial Consumers

This Water Supply Tariff Policy supports the concept of cross subsidies from commercial customers to domestic consumers and that the tariff for commercial customers be set at two to three times higher than the domestic customer tariff but, as a minimum, not less than fifty per cent more than the domestic tariff.

Statement 5. Tariff for foreign consumers

This Water Supply Tariff Policy supports a medium-term approach whereby the current discriminatory practice of charging foreign consumers a disproportionately high water tariff is phased out as the economy develops.

Statement 6. Rising Block Tariff Structure

Water supply operators may employ rising block tariff structures although alternative and more efficient wealth redistribution mechanisms shall be examined by WASA and, where appropriate,

changes made subject to the approval by the Minister for the Ministry of Communication Transport Post and Construction.

Statement 7. Use of Fixed Water Charges

This Water Supply Tariff Policy supports the phasing out of fixed charges for domestic customers although the application of fixed charges on non-domestic customers still has a degree of justification.

Statement 8. Subsidised Connection Fees

This Water Supply Tariff Policy supports a strategy of subsidised connection fees, specially for poor households, in exchange for higher consumption tariffs.

Statement 9. Capital contributions

System expansion by a water supply operator offering the same level of service for all its customers should be financed through existing tariff structures and should not demand capital contributions from prospective customers. Where customer groups have made such capital contributions to suit a particular management model a reduced tariff should apply.

Statement 10. Level of Service

This Water Supply Tariff Policy supports the concept of lower tariffs for lower levels of service irrespective of the actual costs of the service.

2. The environment

Statement 11. Mechanism to Reduce Consumption

This Water Supply Tariff Policy does not support the concept of employing tariffs as a mechanism to reduce consumption.

Statement 12. Economic Level of Leakage

This Tariff Policy supports the concept of leakage control directed towards the achievement of an 'economic level of leakage' as opposed to 'setting specific targets' that do not reflect the costs of leakage control.

Statement 13. Efficient Water Use

This Water Supply Tariff Policy supports the development of awareness and education campaigns undertaken by the operators to encourage efficient water use by the customers even though the benefits are measured in economic as opposed to financial terms.

Statement 14. Water quality

This Water Supply Tariff Policy supports the concept of

'polluter pays' with respect to wastewater management systems.

3. Cost Recovery

Statement 15. Long Term Cost Recovery Approach

This Water Supply Tariff Policy takes a long-term approach whereby the tariff determination process shall employ long run average cost (LRAC) discounted cash flow techniques or other appropriate long term tariff smoothing mechanism.

Statement 16. Operating costs

The longer-term operating cost profile used in the tariff determination process should reflect a process of continually improving operating and financial efficiency.

Statement 17. Use of Regulatory Discretion

The Water Supply Authority is encouraged to take a balanced approach to comparative competition and employ a degree of regulatory discretion to allow for any atypical factors such as economy of scale, logistical and communication difficulties etc. It should also recognise any constraints in implementation of cost reduction measures necessary to meet expected performance levels including reasonable transition periods.

Statement 18. Asset Management Plan

The longer-term asset management plans, extending for a period of 10 to 20 years (depending upon the scale and type of operation) are a necessary tariff calculation input to ensure that tariff outputs do not impose too high a burden on the customers in the early years through depreciation being charged on a small consumer base.

Statement 19. Capital maintenance

The full costs of 'capital maintenance' should be provided for in the tariff determination calculation method.

Statement 20. Depreciation

This Water Supply Tariff Policy requires depreciation to be calculated on a current cost basis for the purposes of pricing.

Statement 21. Taxation

This Water Supply Tariff Policy regards taxation as an internal management issue of the water supply operators.

4. Capital structures and Return on Capital

Statement 22. Government debt

This Water Supply Tariff Policy supports the government policy of foreign exchange risk absorption by the government as it provides a significant degree of financial stability to the water supply operators irrespective of macro-economic conditions outside their control.

Statement 23. Grants and equity investment

A policy of zero return on government equity is not supported. It is recommended that even grant-financed activities should still earn a return on equity to build up a pool of financial resources for future investment, debt repayment and other obligations.

Statement 24. Long-Run Average Tariff

This Water Supply Tariff Policy supports the concept of converting short-term grant inputs into longer-run tariff benefits that reduce over time ultimately resulting in long term commercial financial viability.

Statement 25. Fair Return on Equity

This Water Supply Tariff Policy expects the operators to earn fair but real positive returns after allowing for all costs including current cost depreciation.

Statement 26. Sector Return on Equity

In compliance with the concept of comparative competition this Water Supply Tariff Policy supports the adoption of a sector return on equity as opposed to individual returns for each unit. The only differences to be recognised are different corporate structures, e.g. community as opposed to private sector.

Statement 27. Voluntary Reduction of Tariff

This Water Supply Tariff Policy supports the concept of operators to voluntarily reduce tariffs in the event of out-performance of the Water Supply Authority's expectations, provided the financial integrity of the organisation is maintained.

Statement 28. Weighted Average Cost of Capital (WACC)

The 'weighted average cost of capital' (WACC) for an investment activity is independent of capital structure and is the return that would be expected by an all equity investment. The Water Supply Authority shall be responsible for defining and determining a 'fair' return on capital recognising the varying institutional structures operating in the sector.

5. Constraints

Statement 29. Maximum Amount that Household are prepared to Pay for.

This Water Supply Tariff Policy suggests that the maximum households are prepared to pay for water and sanitation facilities is in the order of 3–5% of total household income

Statement 30. Bad Debts Issues

Affordability by the very poorest may not be achievable in every community in which case a degree of bad debts and or a reduced level of service is to be expected and, if necessary, incorporated into the tariff structures.

Statement 31. Public Relations

This Water Supply Tariff Policy strongly supports the water supply operators investing in the necessary public/customer relations activities to ensure that the customers appreciate a clean potable water supply service and that they respect the need for such a service to be paid for.

Statement 32. Unpaid Accounts Receivable

This Water Supply Tariff Policy considers it is unfair to demand higher tariffs from domestic customers to cover for non-payment by customers that can but choose not to pay.

Statement 33. Debt-Service Coverage Ratio

This Water Supply Tariff Policy supports the concept of compliance with cash flow determined accounting parameters such as debt-service coverage ratio as suggested by various development agencies and conventional accounting best practice.

6. Reporting requirements

Statement 34. Concept

This Water Supply Tariff Policy supports the concept that the determination of tariffs is not a simple financial analysis. It should take into account many factors of a non-financial nature to ensure that the concept of 'best value' is maintained.

Statement 35. Regulatory account

Regulatory accounts, as opposed to statutory and conventional accounts, are necessary to ensure transparent tariff determination activities.

Statement 36. Reporting by WASA

The Water Supply Authority shall present its tariff determination findings in reports that shall be placed in the public domain.

III. Implementation of the Water Supply Tariff Policy

The Water Supply Authority is obliged to prepare **Tariff Determination Guidelines** based upon the Water Supply Tariff Policy. The Tariff Determination Guidelines will set out all the **information requirements** for the tariff determination process and that the operators shall be obliged to comply with these requirements.

Based upon the Rate Setting guidelines and the information received the Water Supply Authority will conduct regular **tariff reviews**. The Rate Setting Guidelines will also stipulate factors such as the timing of these regular Tariff Reviews, either annually or for longer periods, e.g. every five years.

The tariff review process should include comprehensive data collection for **Draft Determinations**. Between Tariff Reviews there may be provisions for **interim adjustments**, e.g. increases in line with inflation or within a predetermined formula. These interim adjustments may include special adjustments to accommodate any material changes to the operator that effect tariffs, e.g. the inclusion of a new system within the operator's area of supply.

This Water Supply Tariff Policy is issued for the services of urban water supply which are under responsibility of Water Supply State-Owned Enterprises (Nam Papas) of Vientiane Capital City, provinces and special zone. This Tariff Policy excludes activities undertaken by the National Centre for Environmental Hygiene and Rural Water Supply but can include other water supply activities outside the Nam Papas.

The Department of Housing and Urban Planning directs the Water Supply Authority for the implementation of this Water Supply Tariff Policy.

Signing on behalf of the Minister

Khamlouat SIDLAKONE