

# Operating Contracts in Water -Latur

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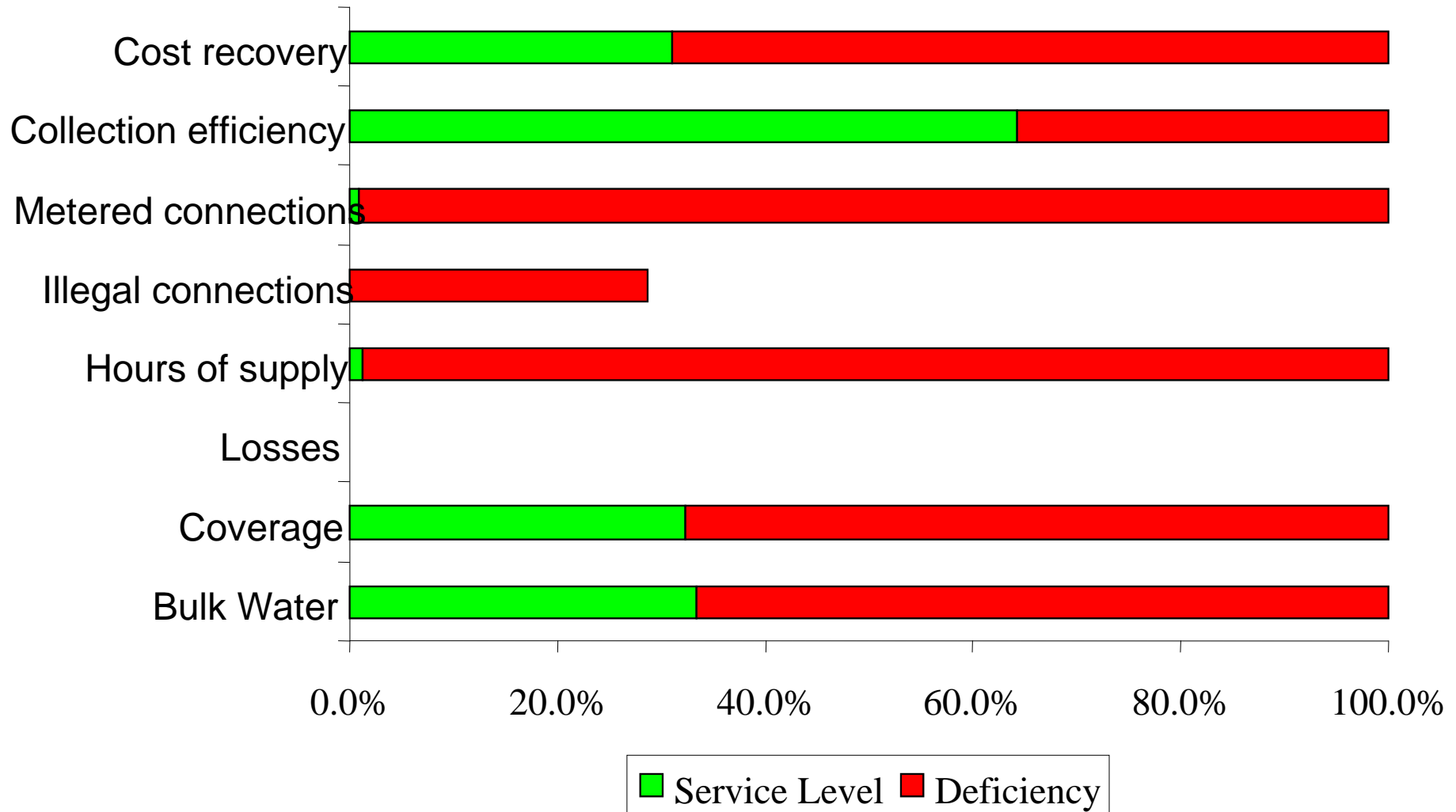
17<sup>th</sup> March, 2008

# Context

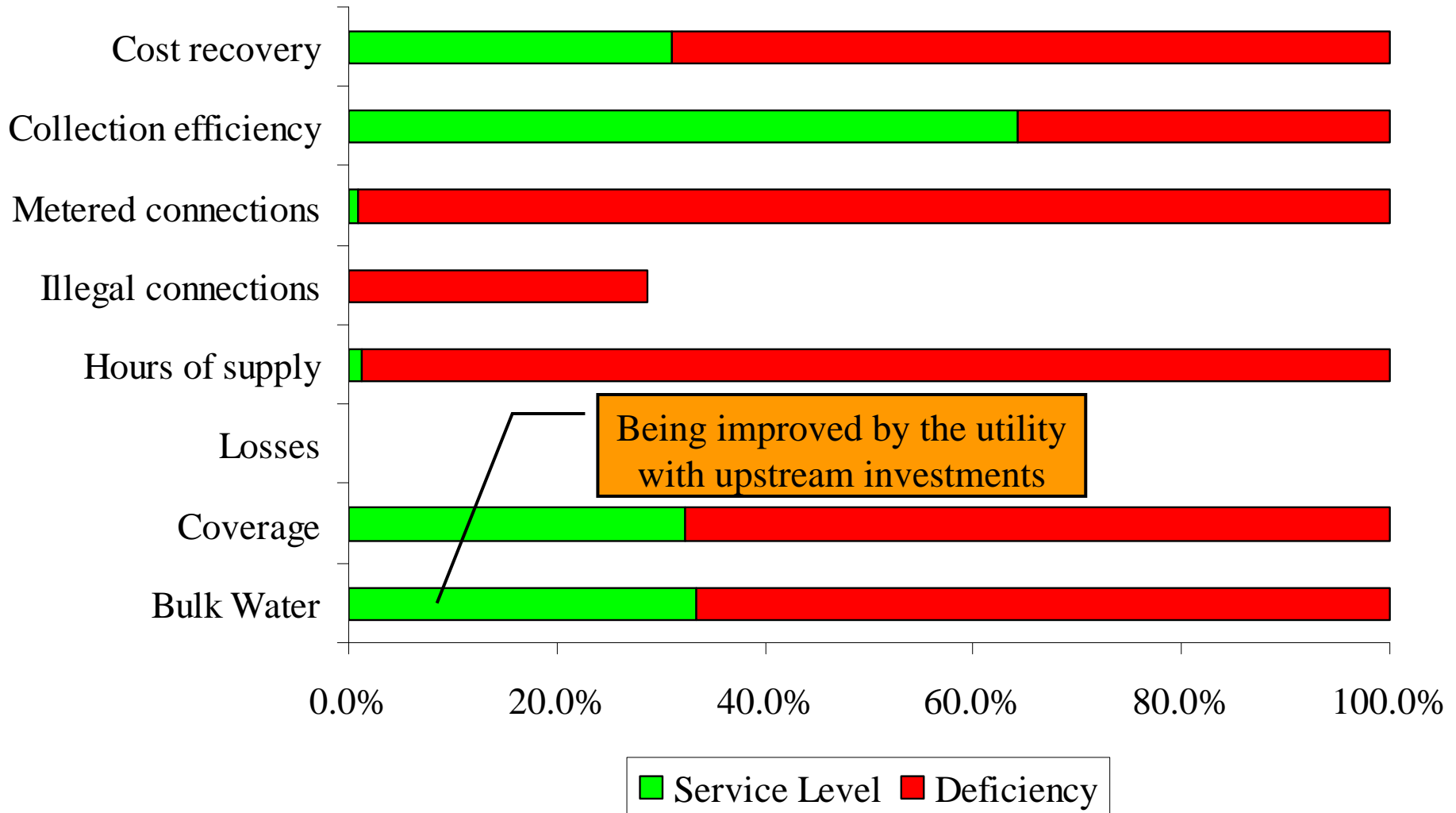
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- **Population of 350,000**
- **Politically important town**
  - Constituency of the Chief Minister of the province
  - and the Home Minister of the nation
- **Water starved region**
  - Little rainfall, poor groundwater, fresh water sources far away

# Situation that led to operating contract



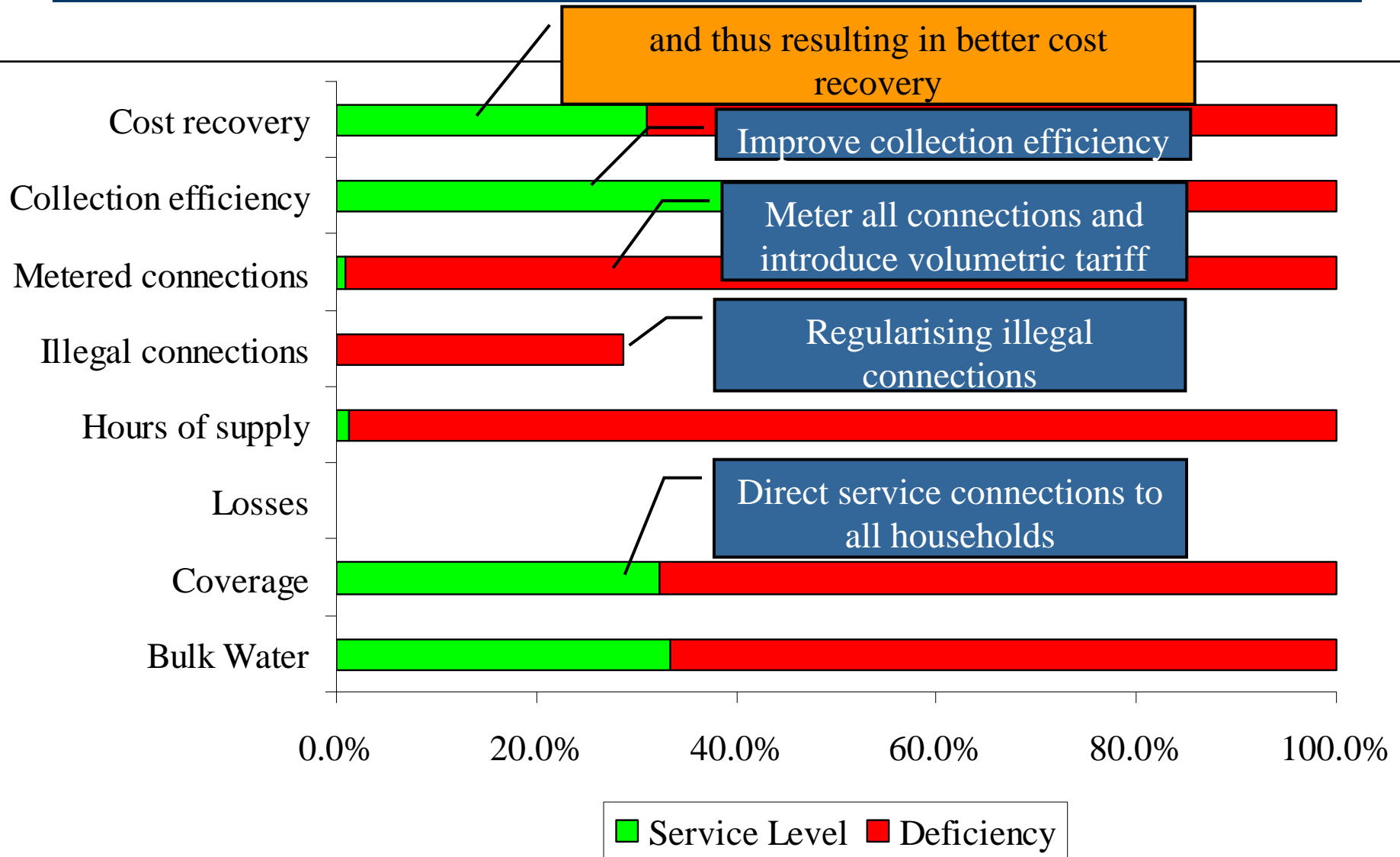
# Situation that led to operating contract



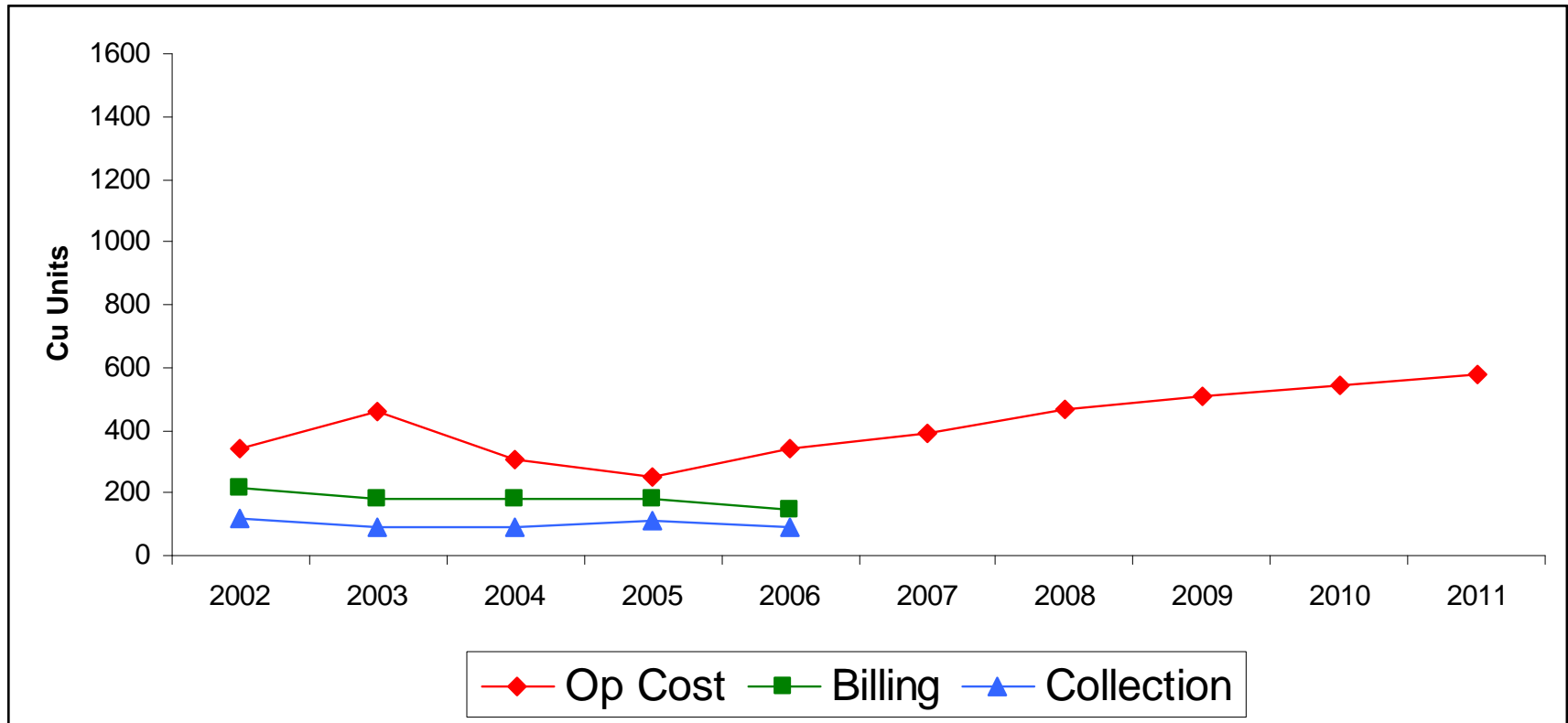
Supply of adequate water on a daily basis became possible

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- **The utility had the option to improve service delivery and cost recovery**
  
  - **A) Improving service delivery**
    - Move towards continuous water supply
    - Reduce water losses
  
  - **B) Improving cost recovery**
    - Reduce illegal connections
    - Increase tariff to cover costs
    - Improve collection efficiency

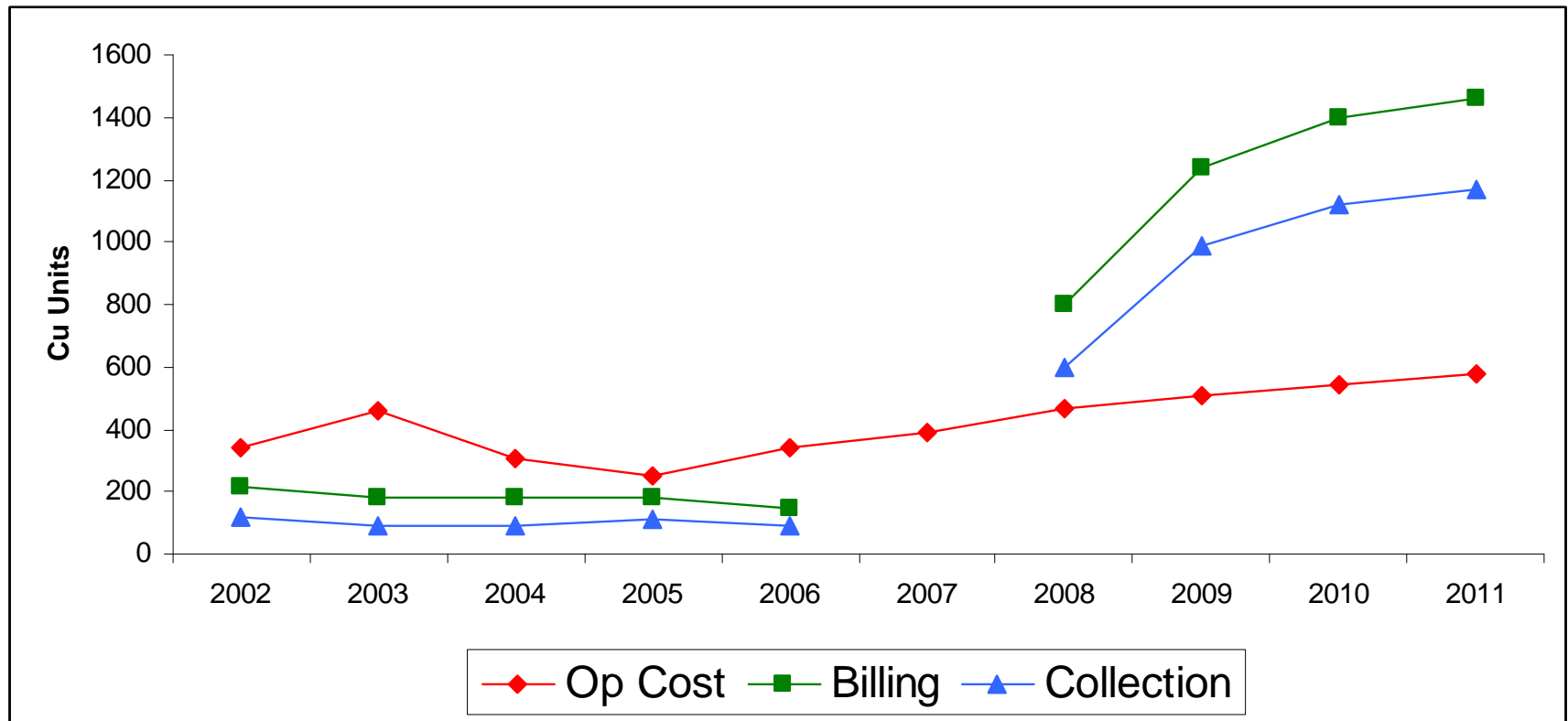
# The utility decide to focus on making the operations viable



# Costs were projected to increase, cost recovery would be low



# Volumetric tariff would increase revenues



The utility decided to introduce volumetric tariff which was being practiced in a few other cities

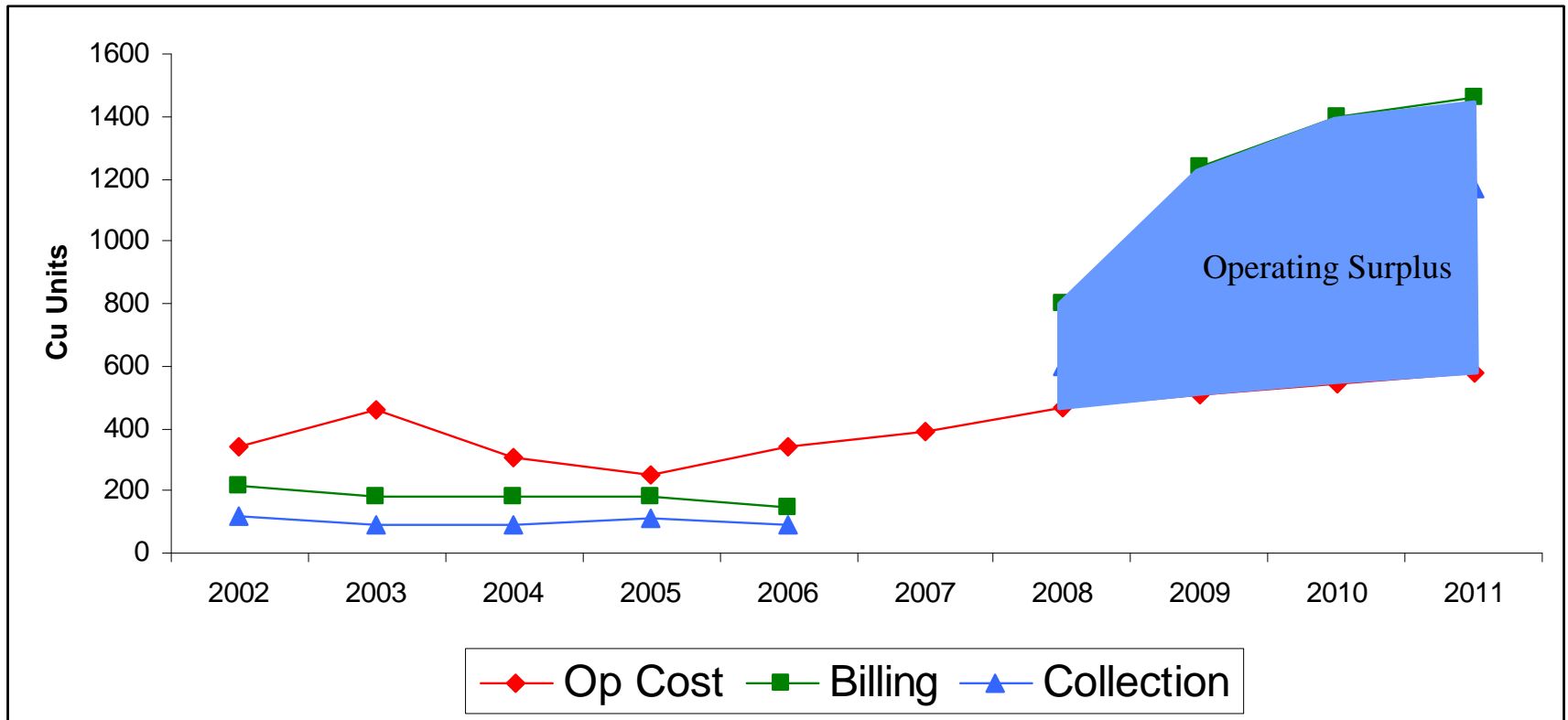
## Assumptions

Number of connections would improve to 45000 out of 65000 households

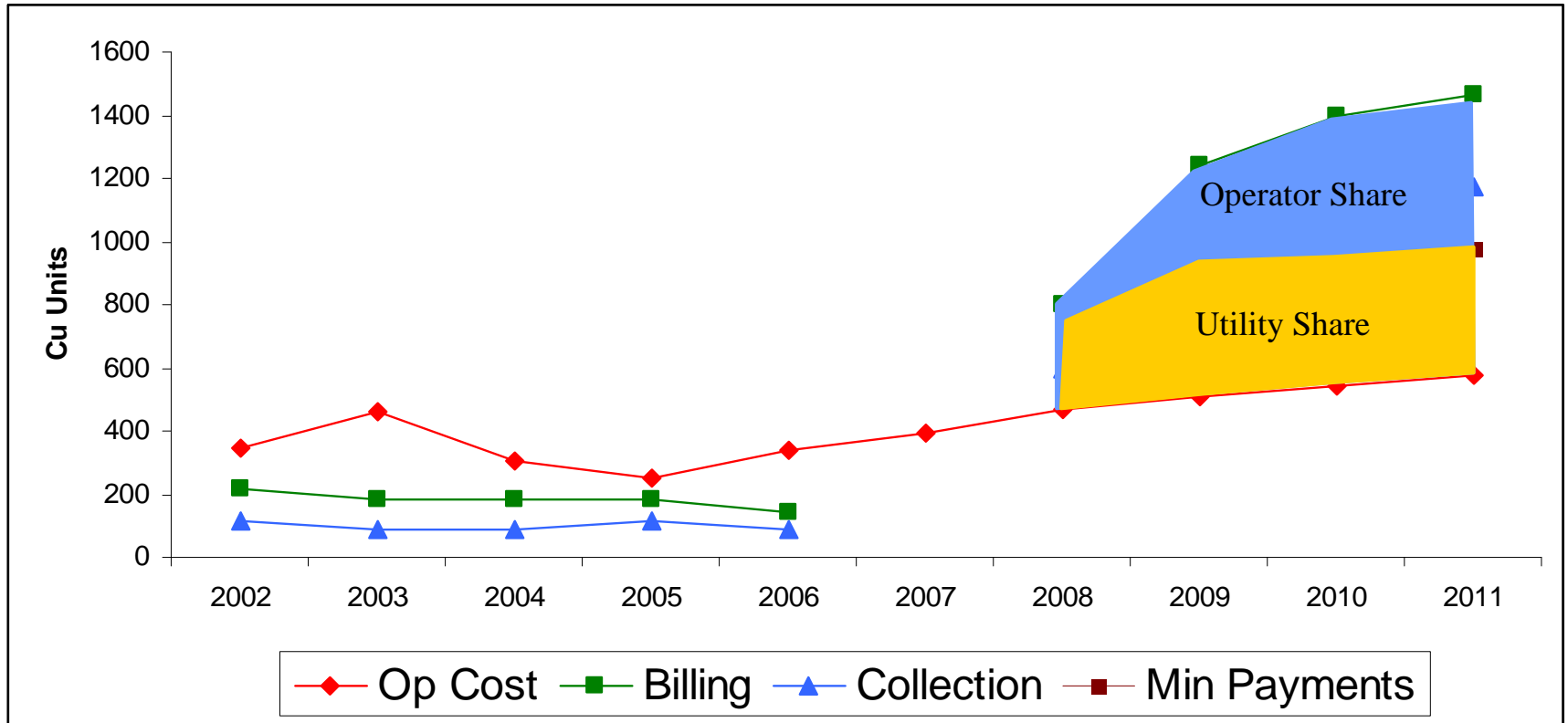
Collection efficiency would reach 80%



# The operator would be able to generate an operating surplus



# The utility wanted an assured share of this surplus



# Operating Contract

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- **Operator required to**
  - Legalise connections
  - Introduce metering
  - Bill and collect on a volumetric basis
  - Operate and maintain the network
  
- **Operator is required to**
  - Make assured payments to the utility every year
  
- **The bidder who commits to the highest present value of payments is selected**

# **Strengths and weaknesses of the contract**

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- **Takes into account weak capacity for monitoring complex arrangements**
- **Focusses on cost recovery as an immediate priority**
- **Relegates quality of service to a later date**
- **Strong incentives to improve commercial performance, but weak checks to guard against poor service**

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- **The procurement was successful since**
    - There was a good risk appetite among bidders
    - The upside is unlimited in this contract
    - There is a three month cooling period to test the assumptions



**Thank You**

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