Water regulation challenges

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MENA region

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Ease of doing business - GCC

Bahrain
46

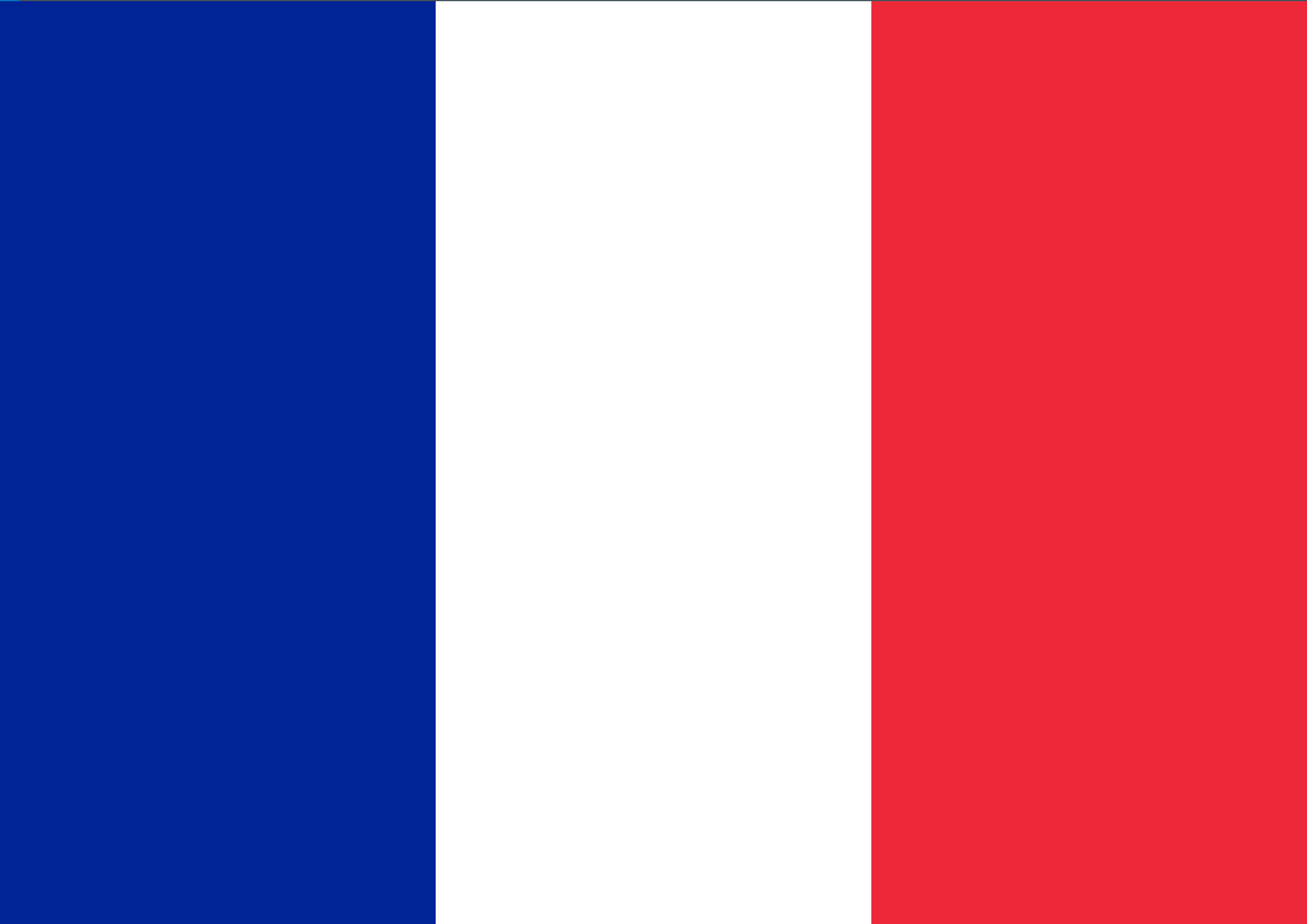
Kuwait
104

Oman
47

Qatar
48

Saudi
26

UAE
23



Ease of doing business - MENA

Egypt	128
Iraq	151
Jordan	119
Lebanon	111
Libya	187
Morocco	87
Sudan	149
Syria	165
Tunisia	51
Yemen	133

Getting credit - GCC

Bahrain	130
Kuwait	130
Oman	86
Qatar	130
Saudi	55
UAE	86

Getting credit - MENA

Country	Rank
Egypt	86
Iraq	180
Jordan	170
Lebanon	109
Libya	186
Morocco	109
Sudan	170
Syria	180
Tunisia	109
Yemen	170

Protecting investors - GCC

Country	Number
Bahrain	115
Kuwait	80
Oman	98
Qatar	128
Saudi	22
UAE	98

Protecting investors - MENA

Egypt
147

Iraq
128

Jordan
170

Lebanon
98

Libya
187

Morocco
115

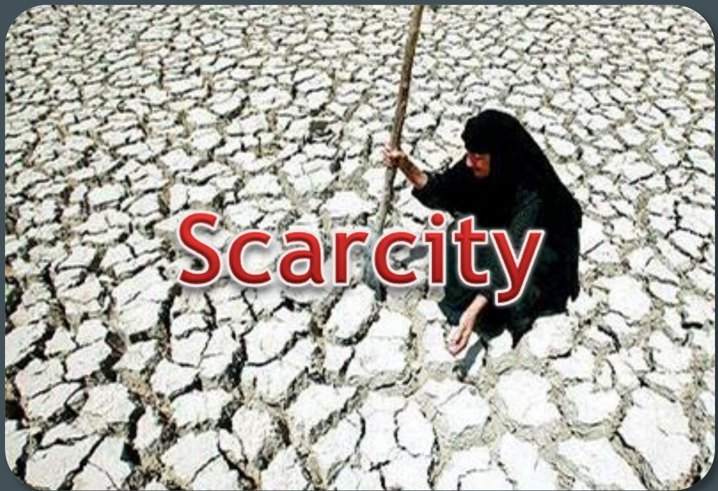
Sudan
157

Syria
115

Tunisia
52

Yemen
138

Nature of the water sector



Additional regional complications

Policy considerations

Prevailing policy solutions

NATIONALISATION

Attracting investors

Price
Quality
Range
Service

Efficient performance
=
reasonable returns

Certainty

Isolates political risk

Independent dispute resolution

Sole face for technical and economic regulation

Licensing

Surrogate for competition

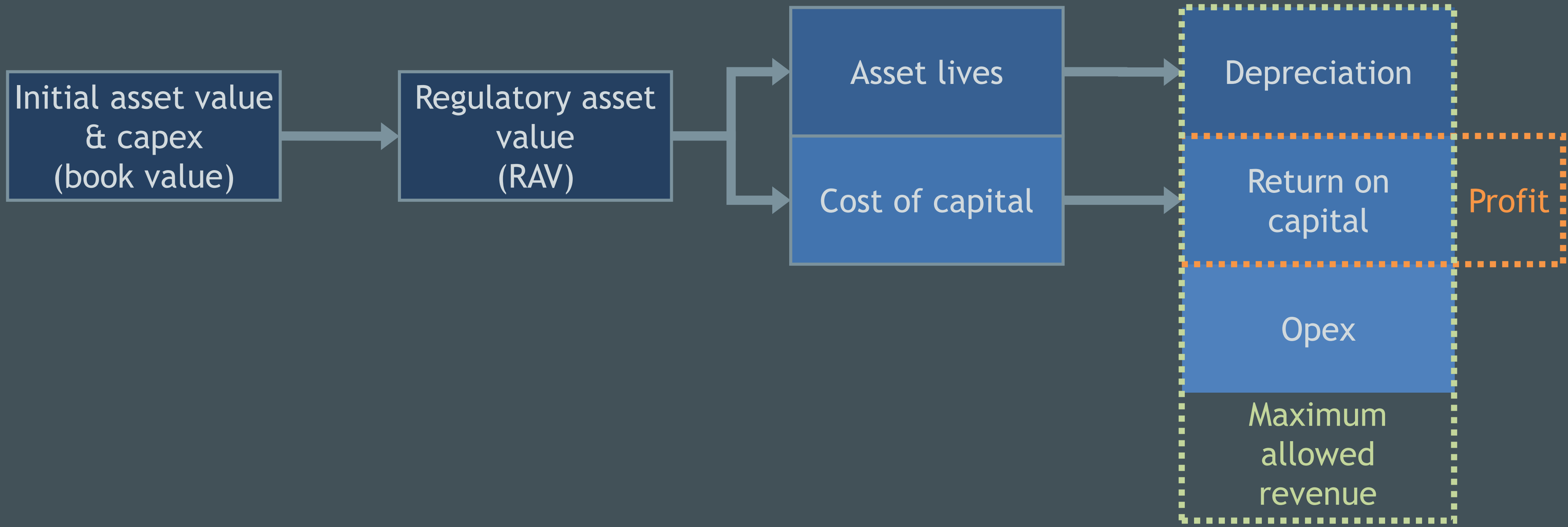
Promote competition

Economic tools of regulation

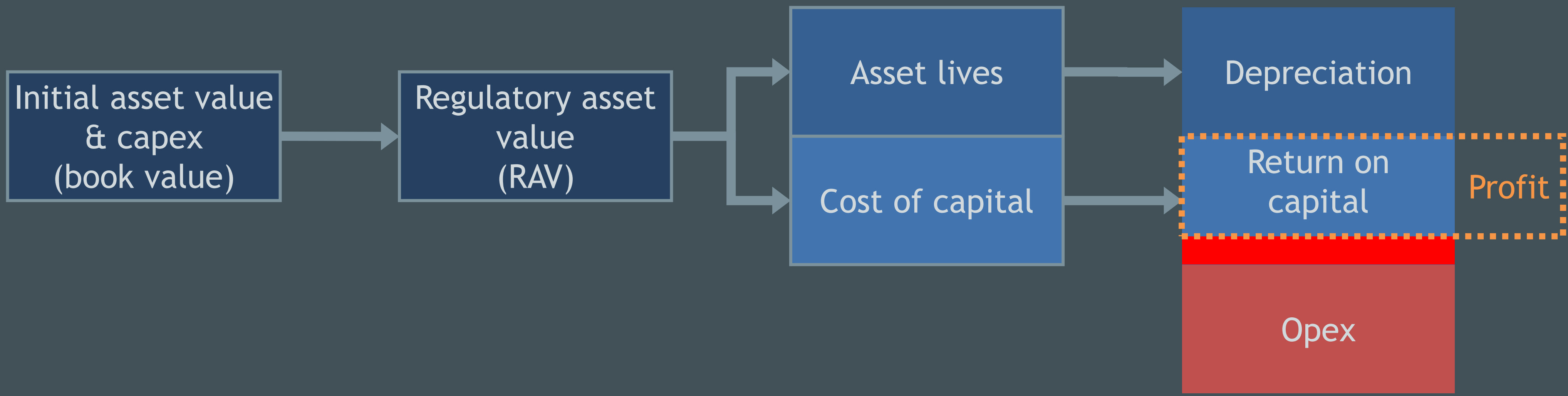
Competitive

bidding

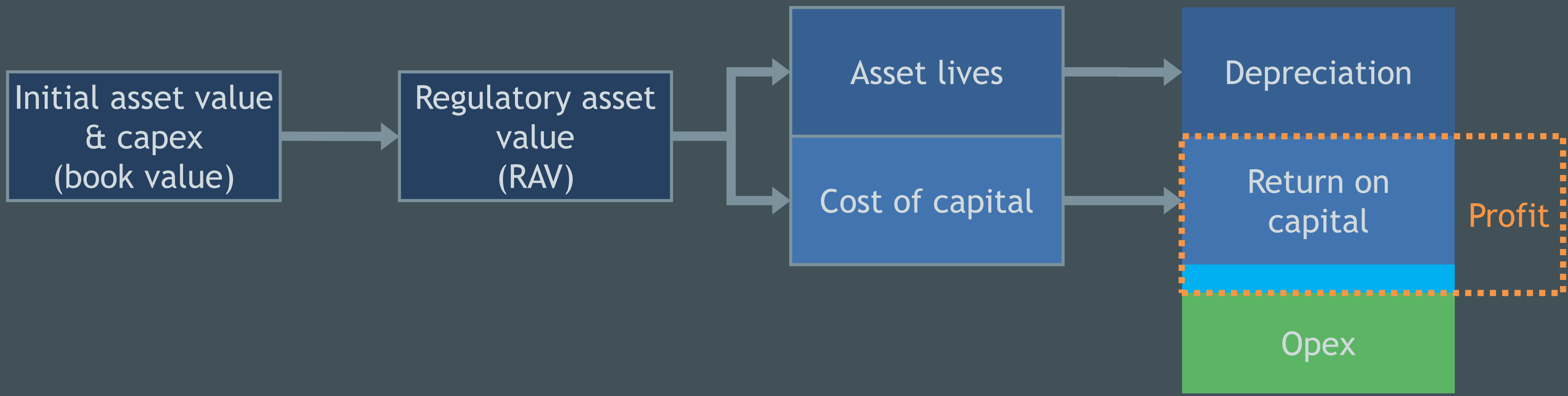
Price controls – setting revenue requirement



Price controls – poor opex control



Price controls – good opex control

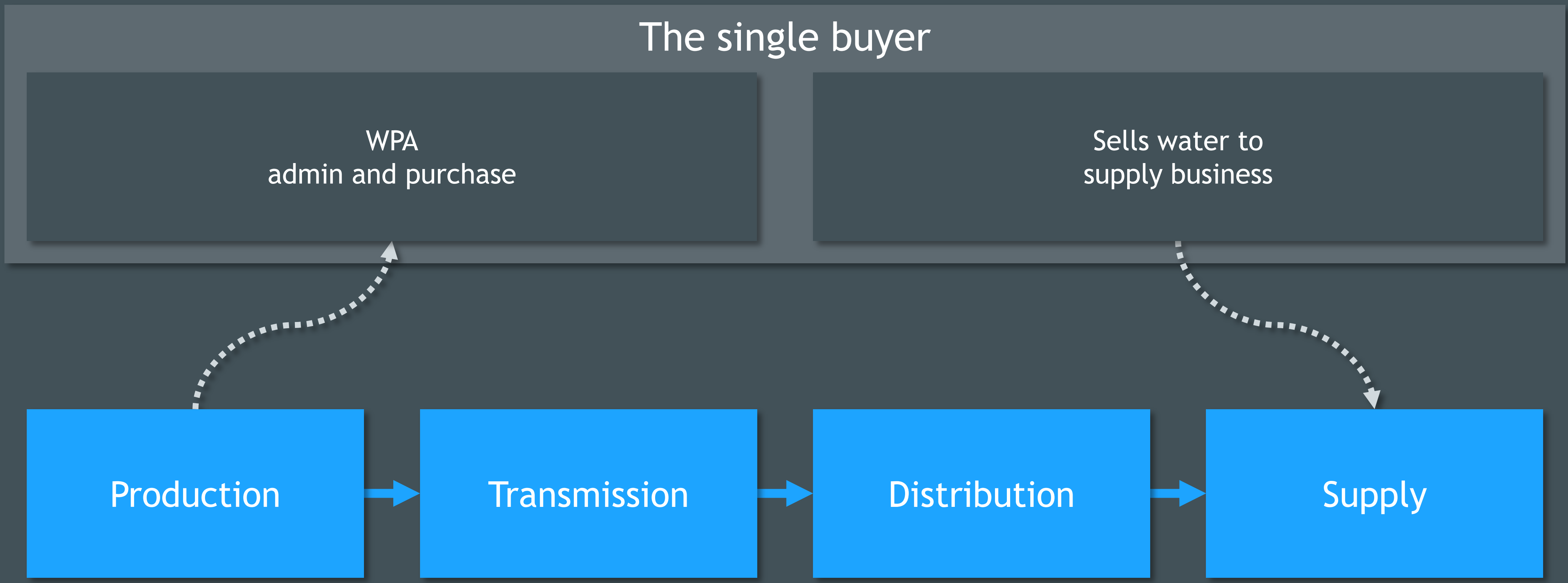


IWP and ISTP model

- bidders compete to provide independent plant
  - water production
  - wastewater treatment.
- successful bidder forms:

- successful bidder earns revenue from selling output.

Role of the single buyer

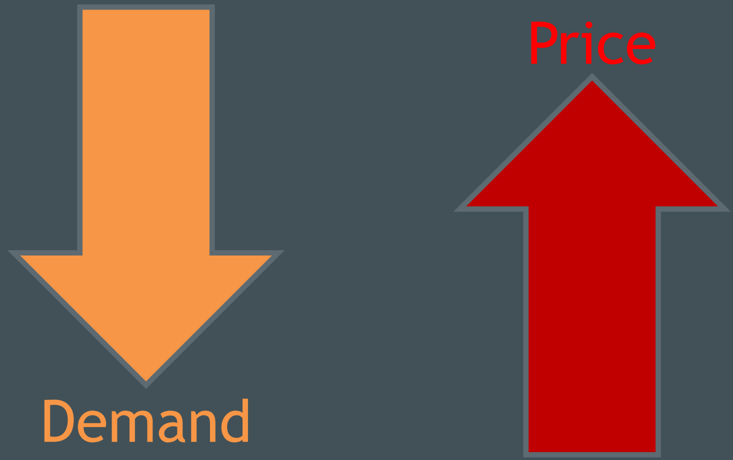


Additional features of single-buyer approach

- works with subsidy:
  - single-buyer contracted to buy
  - backed by government guarantee
  - if sector subsidised:
    - government must make sure sector is properly funded
    - if not, government guarantee will be triggered.
- to drive reliability & limit demand forecasting risk:
  - bulk of payments are for available capacity
  - relatively small payments for output.
- investors demand independent regulator.

Additional features of single-buyer approach

- risk:



- normal market:

Economic level of leakage

- Why worry about leakage?
  - leaks waste money
- But, can this water be saved?
  - yes, but only if it is profitable
- How is this worked out?
  - cost <u>versus</u> savings over the long-run
  - reduce leakage when savings > cost
  - stop reducing leakage when savings < cost
- Can we incentivise this?
  - YES, in the price control
- How?
  - have 5% of allowed revenue depend on metered units.

Summary

Independent regulation is the cornerstone for attracting investors to the water sector on the most attractive terms.

Thank you

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قطاع الماء ومياه الصرف الصحي والكهرباء في إمارة أبوظبي

How regulation might work – water

Potable water

Wastewater

Potable water - business activities

Production

Transmission

Distribution

Supply

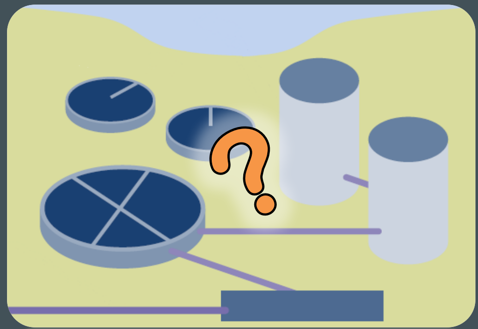
- ✗ directly contestable
- ! indirectly contestable
- ! procurement competition
- ✓ vertically separate
- ✗ need price controls

- ? transition needed
- ✓ suppliers compete
- ✗ need price controls

Wastewater - business activities

Collection

Treatment



- ✗ directly contestable
- ! indirectly contestable
- ! procurement competition

Disposal

Recycling

- ✓ RW sales
- ✓ biosolids sale
- ✓ revenue for treatment
- ? sell - tariff
- ? sell - bilateral contract
- ✗ need for price controls
- ? maximise revenue licence condition

Further consideration

- licensing arrangements
- do not forget rules for
  PROVIDER OF LAST RESORT