Regulatory practices in the water sector in Europe

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Regulation issues of the water sector

- Essential services with health, environmental & social impacts, requiring costly infrastructure

- Natural monopoly: no pressure for competition, captive users, high monopoly rents

- Regulation: definition & application of rules determining the service general framework, stakeholders roles & missions and interactions, how the service is financed
Regulation models

• Several regulatory models across Europe
• Pursuing the same goals but deriving from different legal & institutional traditions
• Regulation is a historical construction with successive layers
• Influenced by local issues: water scarcity, rainwater…
Regulation practices in Europe

- Public self-regulation
  - Operator sets its own rules for providing the service (QoS, price), within a given framework (national or wider)
  - Usually close control of elected local body (municipality or local authority)
  - Either *specific status* (public body, local administration) or *private status* (SPL in France, AG in Germany, SpA in Italy)
Regulation practices in Europe

• Private self-regulation
  – Operator sets its own rules for providing the service (QoS, price), within a given framework (national or wider)
  – Control by shareholders
  – Examples: DK, Ireland, Galicia (SP)
Regulation practices in Europe

• Public self-regulation with benchmarking
  – In addition to classic public self-regulation, voluntary comparison of the performance, creating emulation among peers
  – Benchmark usually managed by professional non-profit organization
  – Examples: DK (DANVA), NL (VEWIN)
Self-regulation:

- Private
- Public with public status
- Public with private status
- Public with benchmark
Regulation practices in Europe

• Contractual regulation
  – Contract (incomplete) between the delegating authority and the operator
    • Including or excluding investments
  – Duration of contracts, between 10 & 50 years
  – Competitive procedure (call for tenders)
  – Arbitration authority in case of conflicts
Regulation practices in Europe

- Regulation by an agency
  - Independent regulatory body setting the conditions for service provision by the operator
  - Usually associated w/centralization & yardstick competition model
  - Examples: England & Wales
Regulation practices in Europe

- Sunshine regulation
  - Central organization entrusted with performance information collection and dissemination
  - Legal obligation for services to participate (difference w/benchmark)
  - Information asymmetry reduction between operators, regulator & users
  - Examples: France, NL
Contractual regulation
Regulation by an agency
Sunshine regulation
Regulation of operator’s remuneration

- 2 methods to set prices:
  - Cost-of-service/cost-plus
  - Price cap

- Method linked w/type of regulation:
  - Self-regulation ↔ cost-of-service / cost-plus
  - Contract / agency ↔ price cap

- Hybrid method combining both
Institutional framework of regulation

- Choice of regulation model depends on:
  - Fragmentation/concentration of the water sector (Fr vs England)
  - Existing stakeholders and legal system
    Integration of the activities (drinking water, waste water, other urban services)
  - Existing levels of administrative organisation
    (local, national, intermediate)
  - One model does not fit all situations
Dynamics and perspective

• Hybrid models in many countries

• Models converging:
  – Corporatization (transparency & flexibility)
  – Contractualization (for direct management)
  – Centralization (deriving from UE pressure)

• Integration of transversal managerial tools (PI & performance assessments)