

Albania - The Role of Economic Regulator in the Water and Wastewater Sector

The Economic Regulator intends the legal control of the water and wastewater operators for purposes of addressing monopoly issues related with water supply and sewerage services.

Water supply services are vital for the communities and have generally high costs, but they are extremely indispensable, which makes consumers willing to even pay very high tariffs to make sure they have such services. Due to the indispensable nature and monopoly of these services, the water utilities may abuse through the application of quite high tariffs.

1. *The Regulator as a guarantor for tariffs based on justified costs of services*

Generally speaking, for monopoly services, private operators intend maximum profit by artificially increasing costs, and consequently the consumers' tariffs. The same might happen with the public operators (Albanian case), increasing costs due to the poor productivity of the labour force, as well as due to corruption.

What happens with public operators is also the opposite, i.e., keeping tariffs below costs for mainly political reasons, which is non-productive practice as well. In these cases, they constantly wait from the Central Government to subsidize these services. Lack of the required maintenance and investments leads always to a lower quality of service for consumers.

Given the above reasons, the Regulator has adopted policies which enable the application of a level of tariffs that covers only the justified costs, acting as a barrier to the tendency of the utilities to increase tariffs based on unjustified costs. Vice versa, the Regulator plays an important role in avoiding the tendency of the local governments for political reasons imposing the utilities to maintain low tariffs, which do not cover the justified operation and maintenance costs.

In short, the Regulator fills in the role that competition plays in setting prices in other non-monopoly markets, where services are provided by operators to consumers at reasonable tariffs, which are regulated by the market itself.

2. *The Regulator ensures the implementation of the Central Government policies and set up standards of the services, and licence the Operators*

Following the decentralization reform of the water and wastewater sector in 2007 in Albania, the Central Government lost its control over the water utilities in terms of ownership of their assets, and by having the authority to appoint boards and executive directors of water utilities. Referring to the organic law, the utilities are fully under the authority of the Local Government. In the meantime, the Central Government is responsible for developing strategies and policies for strengthening the Water and Wastewater Sector, as well as for setting the short, mid, and long-term objectives for him.

Due to the above reasons, operators are generally interested in pursuing their close and narrow interests rather than those set by the Central Government. For this reason, the Regulator is indispensable as an instrument in ensuring the implementation of the law at the strategic level, including the implementation of the Central Government policies, and setting up standards of services for the utilities toward the customers. On the other hand, the Regulator licences the operators based on the legal and technical criteria which they have to fulfil.

3. Local Government suffers from lack of financial capacities to subsidize the water services

The fact is that 49 out of 57 of the water utilities in Albania currently need subsidies from the Central Government in order to cover their Operation & Maintenance costs. There are to consider also the need for additional costs required to cover the investment in the sector.

On the other hand, none of the local government units in the country can generate enough income from the current local fiscal system, which may allow them to fully exercise their functions foreseen by the organic law. Currently, the income generated from the local fiscal system manages to cover not more than 70% of the aforementioned needs. This prevents local government units from being financially strong to subsidize the utilities, when the utility fails to cover costs, by their own revenues generated mainly from the customer bills. In this situation, the utilities are obliged to turn into the Central Government for subsidies in order to cover their operation and maintenance costs, in addition to the demand for financing infrastructure investments in the sector.

The legitimization of such dependence leads local government units towards keeping water supply and wastewater tariffs below costs, given that in a certain way they are easily subsidized by the Central Government.

In order to ensure that proposed tariffs are properly analysed and monitored, and that tariff-related decisions are taken based on only justified and affordable costs, the Regulator comes in as the only specialised and independent body with the right authority to guarantee all this process.

4. Local Government needs assistance to implement the tariff setting methodology and in monitoring the tariffs and fulfilment of the licence conditions.

It is evident that most of local government units do not have the necessary capacity and expertise to comply with the implementation requirements defined in the tariff setting methodology for water and wastewater services. The Regulator can play a significant role in assisting the utilities and monitoring the proper implementation of the tariff setting standards when the utilities apply for the new tariffs. The utilities need to be monitored also regarding the correct application of the tariffs approved and fulfilment of the conditions mentioned in the licence provided to the utility by the Regulatory Commission.

In conclusion, the Albanian Economic Regulator in a monopoly environment plays its role as:
“The institution which set rules, monitors, set up tariffs, provides licences and set the service standards for the water supply and wastewater utilities in the Sector”.