

MALTA RESOURCES AUTHORITY

Decision on Proposed Water Tariffs March 2014

Summary of Review Process and Conclusions



INTRODUCTION

The Malta Resources Authority ('MRA' or the 'Authority') was requested to approve the proposed water tariffs ('the proposed tariffs') put forward by the Water Services Corporation ('WSC' or the 'Corporation') on the 3rd March 2014.

The proposed tariffs have been put forward by WSC in the light of the expected decrease in electricity tariffs.

REVIEW AND APPROVAL PROCESS

As part of its Review and Approval Process, the Malta Resources Authority commissioned consultants (as per attached report) who reviewed and tested the information, assumptions and data used as a basis for the submission by WSC. In this respect, neither the Authority nor its consultants performed an audit of the information provided to them by third parties.

FUNDAMENTAL PRINCIPLES AND OBJECTIVES

The Fundamental Principles and Objectives used as a basis of the current tariff revision may be summarised as follows:

Legality

The processes and methodologies adopted must conform to applicable legislation, regulations and directives, including the Water Services Act and the Malta Resources Authority Act.

Sustainability and Profitability

The proposed tariffs should enable WSC to achieve an acceptable rate of return on both its current and future capital employed, which would enable it to service its existing debt obligations and sustain an acceptable fixed asset replacement and upgrade policy.

Non-discrimination

The proposed tariffs must not unjustifiably discriminate between comparable groups of consumers and avoid potential cross-subsidization within the different user groups.

Transparency

The entire tariff revision process should be transparent with consumers being provided with sufficient information to enable them to secure an acceptable understanding of how:

- i.) The proposed tariffs were computed by WSC; and
- ii.) The Malta Resources Authority's review and approval process.



FULL COST RECOVERY METHOD

The Methodology

Consistent with the previous tariff revision, the proposed tariff revision has been computed by WSC on the basis of a 'Full Cost Recovery' method for water. Part of the wastewater costs will be covered by a government subvention.

The 'Full Cost Recovery' method assumes that the proposed tariffs will enable the Corporation to recover all its acceptable costs and earn a reasonable rate of return on its capital employed necessary to enable it to meet its current and future debt servicing obligations as and when they fall due. The 'Full Cost Recovery' method assumes that total variable retail tariffs should be equal to the sum of:

Electricity Costs
Wages
Overheads
Return on Capital Employed ('ROCE')

After making the appropriate deductions and / or add backs in respect of:

Government subventions
Fixed Income Charges
Other Services Revenue

The Review Process


The Authority review process commenced after the submission of the WSC report.

The attached water tariff review

- Confirms that the cost model aims to recover the full cost of operations less government subvention
- Target revenue covers the costs of water and wastewater.

CONCLUSION

On the basis of its review process, the Authority approves the proposed tariffs with effect from 31st March 2014 as put forward by the Water Services Corporation


Mr James Camenzuli
Chairman
Malta Resources Authority

24th March 2014