



water & sanitation

Department:
Water and Sanitation
REPUBLIC OF SOUTH AFRICA

BRIEFING OF THE PORTFOLIO COMMITTEE ON WATER AND SANITATION ON THE APPOINTMENT OF THE WATER ECONOMIC REGULATOR COMMISSION

DATE: 13 SEPTEMBER 2022

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Background (1)

- In 2012 the Department of Water and Sanitation instituted a Pricing Economic and Regulation Reform (PERR) project, where one of the objectives was to conduct an **institutional model study for the economic regulator**.
- The PERR project was required to recommend **an appropriate institutional model for effective economic regulation across the water value chain**.
- In 2014 the Department established an internal component known as the Chief Directorate: Economic and Social Regulation (CD: ESR) **to establish and strengthen the economic regulation functions throughout the water value chain** from within the Department prior to migrating to autonomous regulator.
- The first draft of the Business Case was approved by the Minister in 2017 and sector stakeholders were consulted from December 2017 until May 2018.
- The establishment of the water regulator was put on hold since the FY 2019/2020 and reinstated in June 2020, with the requirement to appoint an Expert Panel (Regulator Commission) which will guide the establishment of the regulator.
- Appointment of panel members is made in terms of Section 99 of the National Water Act and Section 76 of the Water Services Act, to serve as an Independent Water Regulator to strengthen the autonomy of Regulatory functions

Background (2)

- The Chief Directorate: Economic and Social Regulation (ESR) embarked on internal consultations to scope all regulatory functions that will migrate to the Independent Regulator and strengthen the Business Case for an Independent Water Regulator.
- Comments received were consolidated and incorporated in the revised business case supported by Operation Vulindlela (OV).
- On 14 June 2022 the Minister approved the Regulator Commission
- A PSP was also appointed to assist in institutionalizing the Regulator Commission, by finalising of the Business Case and legislative review to empower the Commission

The purpose of economic and social regulation

- The purpose of Economic and Social Regulation is to protect the interests of the consumers without compromising the sustainability of the Water Services Institutions, and also to:
 - Ensure that tariffs throughout the value chain are fair to all citizens(equitable)
 - Affordable (viable; ensure economical effective & efficient use of resources)
 - Allow for continuity of service (sustainability)
- One of the key requirements for the effective implementation of Economic and Social Regulation is ensure it is appropriately empowered in the legislation to enhance its role on creating an enabling platform to perform its activities throughout the water value chain without any hurdles

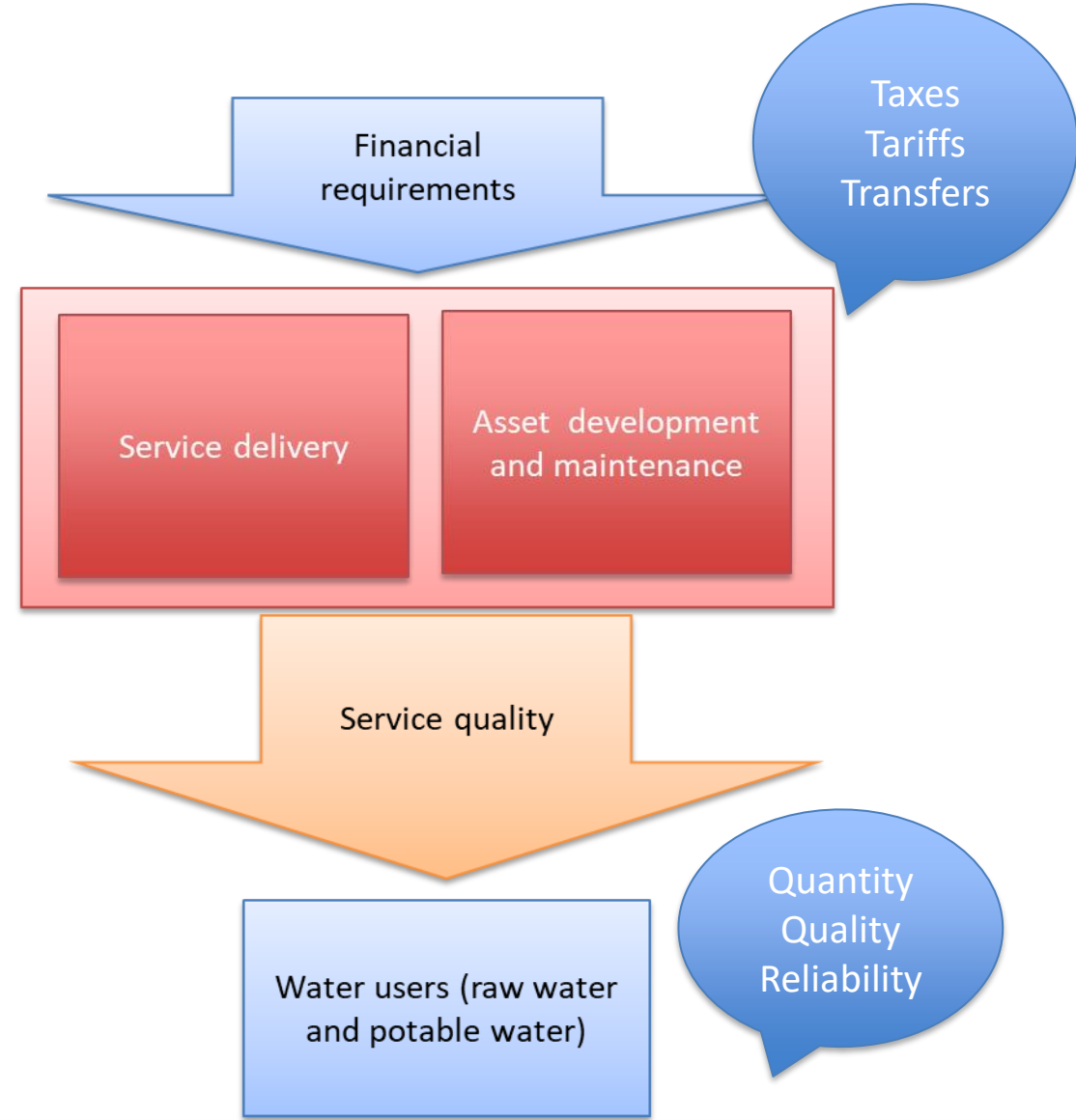
Importance of economic regulation

Uncertainty of actual costs; under-recovery; major grant funding;

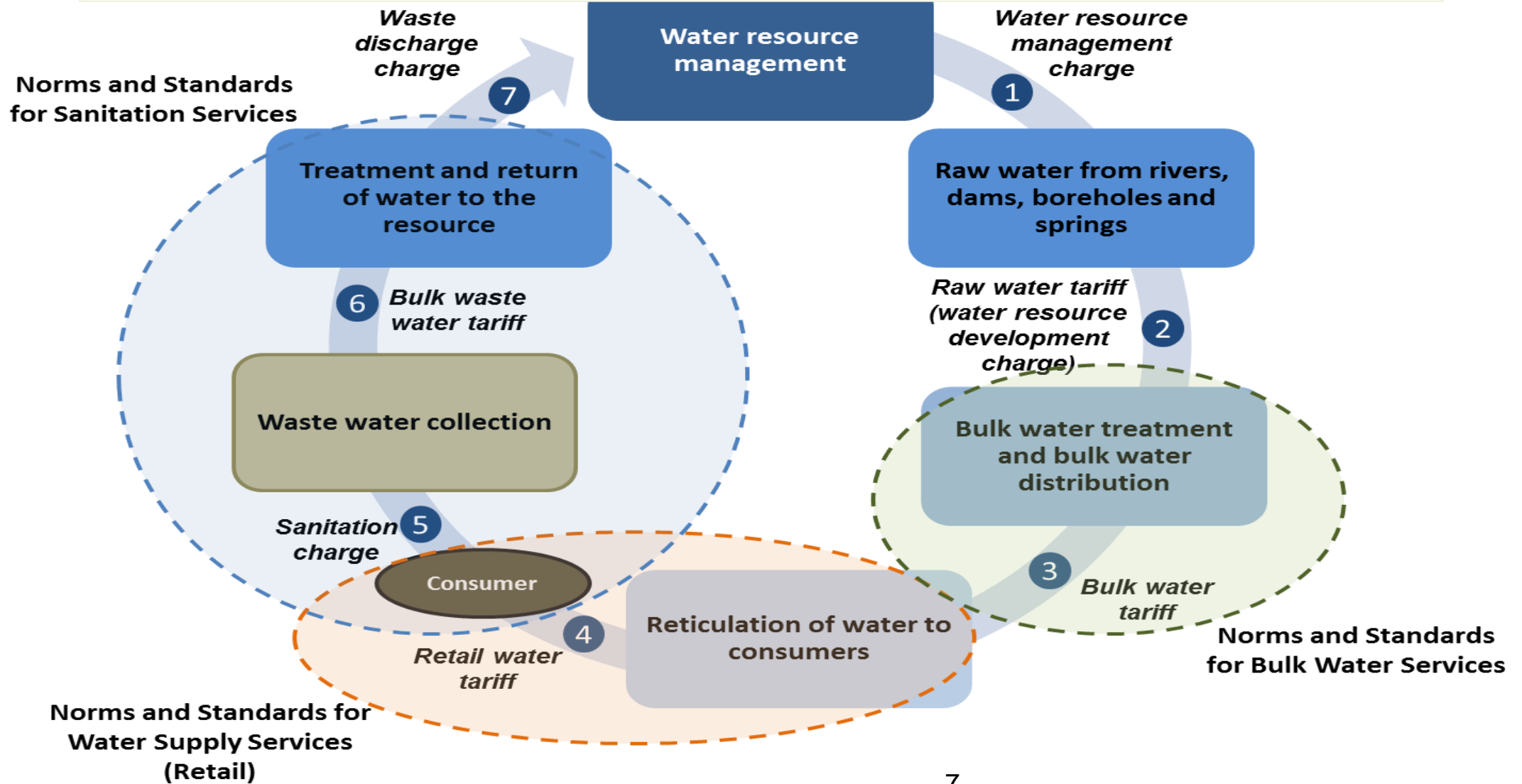
Inadequate investment in O&M refurbishment, development; poor service management; unaffordable services; poor billing and revenue collection; value for money

Poor service quality; high costs to government

Impacts on human rights, well being, economic development; achievement of national development objectives;



Tariffs in the water value chain



Purpose of the water regulator commission

The purpose of the Regulator Commission is to provide strategic regulatory expertise, best practice insights, advise and provide guidance on the activities of the regulatory programme, with an initial focus on economic and social regulation of the water sector.

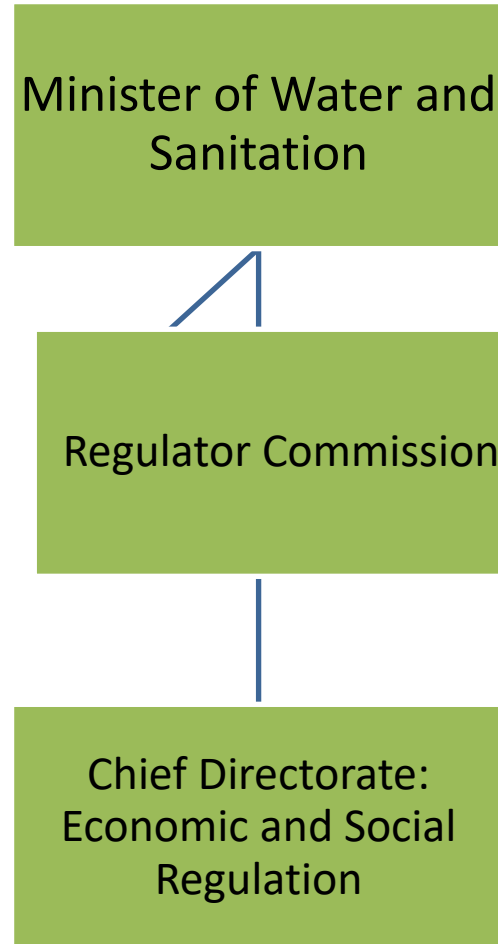
Regulator commission key tasks (1)

- The tasks for the advisory panel are as follows:
 - Advise the Minister on the recommended tariffs for approval.
 - Assist in crafting governance structure for the Regulator Commission
 - Assist with the implementation of the regulatory mandate at Local Government (regulation of water and sanitation tariffs)
 - Guide in the drafting and evaluating institutional performance criteria for the water sector.
 - Expand the scope of the Institutional Performance Assessment Framework to include Water User Associations, Irrigation Boards, Clusters and TCTA

Regulator commission key tasks (2)

- Provide strategic leadership on key legislative mandate that will create a viable regulator within the water sector and contribute to the process of establishing the autonomous regulator commission.
- Assist the department in building networks and establish peer review opportunities with other regulators, nationally and internationally; thereby contribute to building the required regulatory capacity.
- Strengthen debt reduction initiatives. (Implementation of Institutional Credit Control and Revenue Management Framework with the aim to ensure that the water entities implement the credit control and revenue management policies effectively and minimize the debts.)
- Provide leadership in terms of ensuring that sector role-players/stakeholders participate in the regulatory process and in periodic reviews so that the voice of the citizen is heard. (Citizen Voice)
- Guiding the efficiency in contract regulation

Reporting structure



Membership of the Commission

- The Commission comprises of eleven (11) panel members appointed for a three (3) year term;
 - Currently the Commission has eight (8) Members.
 - The remaining three (3) have been nominated and will be appointed by end of September 2022
- The Commission should be multidisciplinary in nature and possessing in-depth experience in the water sector and in regulation in general;
- The following attributes are recommended:
 - Economics, Accounting, Legal, Engineering, Natural Science, Development and Social Studies, Information Technology, Business Management, Knowledge Management,
- The Membership should reflect a fair balance of racial, gender and geographic representation.

Progress on establishment of the Water Regulator Commission

- Appointment letters were issued to the members of the Commission on 30 June 2022
- The Commission has held two meetings:
 - 10 August 2022 – Introductory meeting
 - 19 August 2022 – Finalisation of Terms of Reference for approval by DWS and preparation of a Draft Program of Action.

Implementation Plan – 22/23

#	Activity	Date
1.	Inception and terms of reference	August 2022
2.	Review and input to PSP inception report (Review of Business Case and establishment of Water Regulator)	September 2022
3.	Input on the 2023/24 raw water tariff process	September 2022
4.	Input on Section 10 Norms and Standards	October 2022
5.	Provide comment and recommendations on the Gazetted Raw Water Pricing Strategy	December 2022
6.	Input on the 2023/24 bulk water tariffs	March 2023
7.	Input on the 2023/24 retail water tariffs	May 2023
8.	Recommendations on data management and reporting processes on governance, technical and financial performance of municipalities	June 2023

Thank you

