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Municipal Infrastructure Support Programme

●●● Building together for the future

Program podrške razvoju infrastrukture lokalne samouprave

●●● Gradimo zajedno za budućnost





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Service Agreement Tariff Methodology Business Planning

PUC Leskovac

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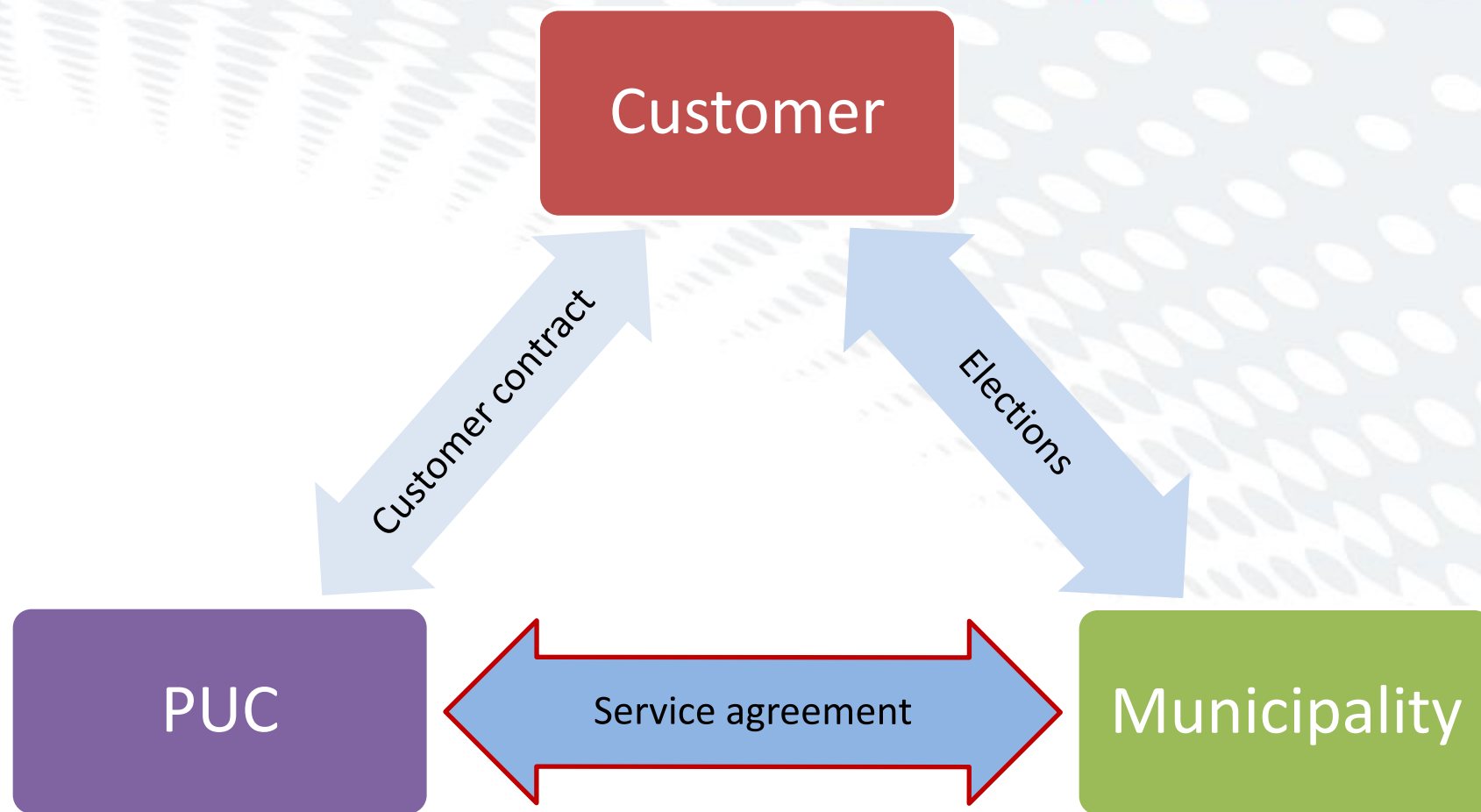
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Service agreement

- Existing service agreement to include WWT
- Determines the mutual relation rights, obligations, responsibilities, way of decision-making, planning and reporting requirements of PUC and municipality
- Operational autonomy for PUC
- Business planning and key performance indicators
- WWT Tariff regulated through annexed methodology
- Restricted cash account for WWT reinvestment

Conclusion: Service Agreement is the cornerstone of corporate governance of PUCs



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Restricted cash account

- WWT is capital intensive service
- O&M costs are only part of the costs
- Capital replacement requirement after 10-15 years
- Equivalent of depreciation expense is reserved
- Service agreement determines restricted account:
 - ✓ Only for WWT capital expenditure
 - ✓ Mechanisms for sustainable operations
 - ✓ No extra costs for customers



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Tariff methodology for WWT services

- **Tariff methodology set in annex to Service Agreement in accordance with**
 - **Legal principles (non polluter pays, cost recovery)**
 - **Guidelines from standing conference**
 - **Restricted cash account**
- **Important role for multi year business plan and tariff model in determining revenue requirement and cost recovering tariffs**



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Key elements of WWT tariff methodology

1. Cost recovery

O&M costs, overhead, depreciation and interest.

2. Predictability

Multi year schedule with only inflation adjustment

3. Affordability

Standard is 4% of average hh income for all water services



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Key concepts of tariff methodology

1. Eligible costs

O&M costs, overhead, depreciation and interest, justified in business plan and supported by underlying documentation: HR plan, asset management plan etc.

2. Revenue requirement

Sum of eligible costs

3. Tariff schedule

Table showing tariffs per m³ for each customer group

Polluter pays principle reflected in different per m³ tariff for industrial customers (BOD related)



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Service Agreement

Permanent

Tariff methodology

Semi
permanent

Tariff model

Updated
annually

Business
plan is input



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Tariff model indication for WWT

{... table to be inserted from JvdV}



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WWTP Business Plan

- PUC Leskovac made BP for WWTP that may be merged into overall BP later.
- Eligible costs/revenue requirement is justified through business plan
- Business plan is based on various documents and systems (MIS, tariff model, HR and AM plans)



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Key Components of the Business Plan (I)

- ❑ Vision, mission, PEST and SWOT
- ❑ Objectives:
 - I. Full monitoring and control of production process
 - II. Effective marketing of effluent, sludge and gas
 - III. Provision of a cost effective service
 - IV. Ongoing and good communication with clients, stakeholders and the general public



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Key Components of the Business Plan (II)

- ☐ Production plan
 - ☐ Key Performance Indicators (KPIs)
 - ☐ Activities
 - ☐ Implementation timeline
 - ☐ Risk management
- {Each to be illustrated with a graphic slide}



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Tariff model presentation

{to be inserted from JvdV}