

DRAFT TERMS OF REFERENCE

CONSULTANCY SERVICES FOR CONDUCT OF REVIEW OF TRIENNIAL TARIFF REVIEW APPLICATION SUBMITTED BY THE WATER AND SEWERAGE COMPANY (WASCO)

1. Background

The National Utilities Regulatory Commission (NURC), established by the National Utilities Regulatory Commission Act Cap 9.01 of the Revised Laws of Saint Lucia (the NURC Act), is responsible for the regulation of water supply services, sewerage services and electricity supply services in Saint Lucia.

As the economic regulator for water supply services and sewerage services, the NURC is responsible for establishing, approving, reviewing and monitoring tariff schemes and tariffs in accordance with the Water and Sewerage Act Cap 9.03 of the Revised Laws of Saint Lucia (the Water and Sewerage Act) as amended by the NURC Act. Section 79 of the Water and Sewerage Act provides for three types of reviews to be carried out namely: (a) annual tariff review; (b) triennial tariff review; and (c) extraordinary tariff review.

Following the establishment of a functioning water regulator in 2012, an extraordinary tariff review, undertaken in 2013, set new water and sewerage rates for the period April 2013 to September 2015.¹ This was followed by an annual review in 2014 which resulted in no changes to existing water and sewerage rates. Notwithstanding that an extraordinary tariff review was carried out in 2013, there has never been a triennial tariff review since the passage of the Water and Sewerage Act.

A review of water and sewerage rates in accordance with the triennial tariff review provisions delineated in the Water and Sewerage Act and Water and Sewerage (Tariff) Regulations – Section 97 was due in 2018. The NURC, through the powers conferred on it by the NURC Act Cap. 9.01 and the Water and Sewerage Act as amended by the NURC Act, is expected to perform this review between the period April 30, 2024, to August 31, 2024 as the triennium period commences September 1, 2024. This review will utilise an incentive-based revenue cap methodology as prescribed by statute. In the light of the NURC's role in determining and approving water and sewerage rates, the NURC is seeking a consulting firm to assist and build capacity of the NURC staff in conducting the triennial tariff review.

2. Objectives: The objectives of the consultancy are to support the NURC in its review of the triennial tariff application submitted by the water utility; and to build capacity among key staff for future tariff review exercises.

3. Scope of Service

The tasks will include, but not be limited to the following:

- (a) **Development of a financial model to determine the utility's revenue requirements, and thereafter rates, in accordance with Section 97 of the Water and Sewerage Tariff Regulations ("Tariff Regulations").** In developing the model, due consideration should

¹ Prior to 2016, the water sector in Saint Lucia was regulated by the National Water and Sewerage Commission (NWSC). Consequent upon the creation of the NURC, the NWSC was made defunct and its responsibilities as prescribed under the Water and Sewerage Act transferred to NURC.

be given to the determination of the Regulatory Asset Value (RAV), including forecast capital expenditure and associated depreciation rates, as well as cost of service based on forecast customer usage and targeted Non-Revenue Water (NRW) rates. Model inputs, such as asset utilization and maintenance levels should be benchmarked against best practices.

- (b) **Support the NURC in its assessment of the completeness, sufficiency and adequacy of tariff review application.** In reviewing the application, the Consultant shall be guided by Tariff Regulations as well as the Minimum Filing Requirements set out by the NURC. Attention should be paid to the proposed service standards and the strategy for balance between service levels, proposed tariff prices and priorities for improvement.
- (c) **Recommend service standards.** In setting target service standards, the Consultant shall determine appropriate quality standards commensurate with the level of prices, in the context of forecast demand. Various scenarios should be assessed to enhance a measure of social acceptability to ensure that all customers receive at least a 'basic' level of service and that any recommended subsidies are effectively targeted to mitigate errors of inclusion and exclusion. The existing Grievance Redress /Appeals Mechanism should be reviewed to ensure that customers have recourse to a system to raise issues related to the tariff scheme.
- (d) **Recommend a new tariff scheme.** The proposed tariff structure should ensure that tariffs recover the efficiently incurred costs of service and a reasonable return on capital. Any proposed tariff increases should be smoothed by applying a K Factor² to be determined by the Consultant. The recommended tariff scheme should also assess the bill impact on various customer classes, defined according to the level of income, household or business. Particular attention should be paid to affordability and potential poverty impacts³. The Tariff scheme may permit the granting of a direct subsidy with mechanisms for social assistance evaluated for appropriateness to establish eligibility for a potential social tariff for poorer segments.
- (e) **Conduct stakeholder consultations.** The Consultant shall prepare and present the proposed tariff scheme to a broad range of stakeholders as agreed with NURC for consultation in order to build support for the process. Response to stakeholders should elucidate the public's understanding of the tariff review process and feedback used to advise on any recommended changes to the recommended tariff scheme (draft determination report).
- (f) **Deliver training workshop.** The Consultant shall engage in capacity-building activities to improve skills of Commissioners and staff of the NURC and other identified stakeholders in Saint Lucia's Water and Energy Sectors. In accordance with a mutually agreed plan, training should cover various aspects of tariff setting including but not limited to technical areas, policy regulation and legislation, gender and social inclusion

² The smoothed change in tariffs over the triennial period is the K factor for each year of the tariff review period.

³ A poverty profile with demographic characteristics such as sex of household head, dependency ratio, and income should be established.

considerations, paying attention to approaches to cushion the impact of tariff rates and increases on consumers in the lower population quintiles.

(g) **Develop a training manual which can be used in future to provide training for key staff.** The Consultant shall involve relevant NURC staff in all aspects of the rate review and should develop a training manual to serve as a template/guide, which can be used in future training.

(h) **Facilitate training in Utility Regulation and Strategy at the Public Utilities Research Centre,** an internationally recognised academic centre dedicated to research and to providing training in utility regulation and strategy, as well as the development of leadership in infrastructure policy. The training should be completed within one year after commencement of this consultancy.

4. Reporting Requirements

All reports shall be submitted in hard copy and digital format to the Chief Executive Officer (CEO). The Firm shall commence field work within two (2) weeks of the effective date of the contract and shall submit the following reports to the CEO within the time periods indicated:

No.	Deliverable	Related to Task(s)	Timeline
1	Financial Model	1	Week 2
2	Assessment report on WASCO's Tariff Application	2	Week2
3	Computed Revenue Requirement and Tariff Scheme	3,4	Week4
4	Report on recommended Service Quality Standards	5	Week5
5	Draft Determination Report	2,3,4,	Week 8
6	Stakeholder Consultations	5	9-11
7	Recommended Changes to Draft Determination Report based on stakeholder consultations and final tariff scheme	6	Week 12
8	Training Plan for training staff of the NURC and other stakeholders	7	Week 12
9	Training Workshop	7,8	Week14
10	Manual/template for conduct of tariff reviews	9	Week 16

5. Implementation Arrangements

The Project will be executed by a Firm over a period of nine (9) consecutive months. The CEO of the NURC will assign a member of staff within the organisation to assume the role of the PC. The consultant will be provided with all documentation pertaining to the assignment, including the triennial tariff review application and supporting documents submitted by the utility, the NURC's Minimum Filing Requirements, the Water and Sewerage Act and Tariff Regulations. During this exercise, the Consultant is expected to work closely with NURC staff and to provide capacity-building in rate setting, utility infrastructure assessment, determination of service standards and benchmarking.

6. Qualifications and Experience

The Firm should be very familiar with current best practices related to utilities regulation and have direct experience in capacity building involving public utilities. The consultancy team should have the necessary technical skills and relevant experience in policy and utility regulation, with principal members having

relevant qualifications. Prior experience in setting rates and in conducting tariff reviews for the water and/or electricity sector would be an asset. Previous working experience in projects in the Caribbean or other developing countries, will be an advantage. At a minimum, the following (but not limited to), the Key Professional Experts should be included in the proposal:

1. **Key Professional Expert 1: Team Lead Expert**, with not less than Fifteen (15) years of professional experience in the regulatory sector and a graduate degree of MSc or equivalent in Economics, Business Administration for Social Sciences.
2. **Key Professional Expert 2: Economist/Business Analyst**, with a strong background in accounting, finance or economics. No less than Ten (10) years of professional experience in the utility sector, including in the analysis and development of tariff structures.
3. **Key Professional Expert 3: Social Analyst**, graduate degree of MSc or equivalent, with no less than Ten (10) years of experience in social, gender and poverty analysis.