

**TECHNICAL GUIDANCE AND PROCEDURES FOR REGULATING TARIFF OF
DRINKING WATER IN REGIONAL ADMINISTRATION-OWNED DRINKING COMPANIES**
(Regulation of the Minister of Home Affairs No. 23/2006 dated July 3, 2006)

THE MINISTER OF HOME AFFAIRS,

Considering:

That in order to implement the provision in Article 60 paragraph (8) of Government Regulation No. 16/2005 on Development of Drinking-Water Supply System, it is necessary to stipulate a regulation of the Minister of Home Affairs on Technical Guidance and Procures for Regulating Tariff of Drinking Water in Regional Administration-owned Drinking Companies;

In view of:

1. Law No. 5/1962 on Regional Administration-owned Companies (Statute Book of 1962 No. 10, Supplement to Statute Book No. 2387);
2. Law No. 8/1999 on Consumer Protection (Statute Book of 1999 No. 42, Supplement to Statute Book No. 3821);
3. Law No. 7/2004 on Water Resources (Statute Book of 2004 No. 32, Supplement to Statute Book No. 4377);
4. Law No. 10/2004 on Enactment of Legislation (Statute Book of 2004 No. 53, Supplement to Statute Book No. 4389);
5. Law No. 32/2004 on Regional Administration (Statute Book of 2004 No. 125, Supplement to Statute Book No. 4437) as already amended by Law No. 8/2005 on Stipulation of Government Regulation in lieu of Law No. 3/2005 on the Amendment to Law No. 32/2004 on Regional Administration to Become A Law (Statute Book of 2005 No. 108, Supplement to Statute Book No. 4493);
6. Law No. 33/2004 on Financial Sharing between the Central Government and Regions (Statute Book of 2004 No. 126, Supplement to Statute Book No. 4438);
7. Government Regulation No. 16/2005 on Development of Drinking-water Supply System (Statute Book of 2005 No. 33, Supplement to Statute Book No. 4438);

8. Government Regulation No. 79/2005 on Guidelines on Fostering and Supervision over Regional Administration (Statute Book of 2005 No. 165, Supplement to Statute Book No. 4593);
9. Decree of the Minister of Home Affairs No. 47/1999 on Guidance for Evaluating Performance of Regional Administration-owned Drinking-Water Companies;
10. Decree of the State Minister for Regional Autonomy No. 8/2000 on Guideliness on Accountancy of Regional Administration-owned Drinking-Water Companies;
11. Decree of the Minister of Home Affairs No. 130/2003 on the Organization and Working Arrangement of the Ministry of Home Affairs;

DECIDES:

To stipulate :

TECHNICAL GUIDANCE AND PROCEDURES FOR REGULATING TARIFF OF DRINKING WATER IN REGIONAL ADMINISTRATION-OWNED DRINKING WATER COMPANIES

CHAPTER I GENERAL PROVISION

Article 1

Referred to in this regulation as:

1. Regional Government shall be provincial government and/or regental/municipal government.
2. Head of Region shall be governor or regent or mayor.
3. Regional Administration-owned Drinking-water Company, hereinafter abbreviated to PDAM shall be regional administration-owned enterprise operating in the provision of drinking water.
4. Drinking water shall be drinking water produced by PDAM.
5. Board of Directors shall be board of executive directors of PDAM.
6. Supervisory Board shall be the supervisory board of PDAM.
7. Subscribers shall be individuals or bodies utilizing drinking-water from PDAM and registered as subscribers.
8. Standard of Basic Need for Drinking Water shall be the need for water as much as 10 cubic meter/head of family/month or 60 liters/person/day or as much as other volume unit stipulated further by the Minister in charge of water resource affairs.
9. Operating Cost shall be the total cost needed for producing drinking water, covering costs of water source, water processing, transmission and distribution, partnership and overhead and administrative costs.
10. Basic Cost shall be operating cost divided by the volume of produced water, subtracted the standard water loss volume.
11. Tariff of Drinking-water of PDAM, hereinafter called Tariff, shall be policy on selling price of drinking water in every cubic meter (m³) or other volume unit in accordance with the policy stipulated by head of region and PDAM.
12. Low Tariff shall be a subsidized tariff whose value is lower than the basic cost.
13. Basic Tariff shall be a tariff whose value is the same or equivalent to the basic cost.
14. Full Tariff shall be a tariff whose value is higher than the basic cost because it contains profit margin and contra cross subsidy.
15. Average Tariff shall be the total tariff income divided by the total volume of the sold water.

CHAPTER II

BASIC FOR TARIFF STIPULATION POLICY

Article 2

Stipulation of the tariff shall be based on principles:

- a. affordability and justice;
- b. quality of service;
- c. cost recovery;
- d. efficiency in the use of water;
- e. transparency and accountability; and
- f. standard water protection.

Article 3

- (1) Tariff of the standard of basic need for drinking water shall be affordable to purchasing power of subscribers having the same income as Provincial Minimum Wage.

- (2) Tariff shall meet the principle of affordability as meant in paragraph (1) if domestic expense on the fulfillment of the standard of basic need for drinking water does not exceed 4% (four percent) of the income of subscribers.
- (3) Justice in the imposition of tariff shall be achieved through application of differentiation tariff and cross subsidy among groups of subscribers.

Article 4

Tariff shall be stipulated by considering equilibrium with the quality of service received by subscribers.

Article 5

- (1) Income of PDAM shall meet the principle of cost recovery.
- (2) Full cost recovery shall be achieved from result of calculation of the average tariff minimally the same as the basic cost.
- (3) In order to develop drinking-water service, the planned average tariff shall offset the basic cost plus reasonable profit margin.
- (4) The reasonable profit margin shall be achieved on the basis of ratio of profit to the productive assets as high as 10% (ten percent).

Article 6

- (1) Efficiency in the use of water shall be achieved through application of progressive tariff.
- (2) The progressive tariff as meant in paragraph (1) shall be calculated through stipulation of consumption block.
- (3) Progressive tariff shall be imposed on subscribers whose consumption exceeds the standard of basic need for drinking water.

Article 7

- (1) The tariff shall be calculated and stipulated transparently and accountably.
- (2) The transparent calculation and stipulation of tariff as meant in paragraph (1) shall be done by PDAM by means of:

- a. conveying clearly information related to calculation and stipulation of tariff to stakeholders; and
- b. absorbing seriously aspirations related to the calculation and stipulation of tariff from stakeholders.

- (3) The accountable calculation and stipulation of tariff as meant in paragraph (1) shall use the calculation basis easily understood and accountable to stakeholders.

Article 8

- (1) Calculation of tariff shall consider protection and conservation of functions of water sources in the long term.
- (2) The imposition of the progressive tariff as meant in Article 6 shall aim at protecting standard water.

CHAPTER III

CONSUMPTION BLOCK AND SUBSCRIBER GROUP

Article 9

- (1) Consumption Blocks of subscribers of drinking-water of PDAM shall cover:
- a. Block I;
- b. Block II.
- (2) Block I as meant in paragraph (1) letter a shall be a consumption block of drinking water to meet the standard of basic need.
- (3) Block II as meant in paragraph (1) letter b shall be consumption block of drinking water for the use above the standard of basic need.

Article 10

- (1) Subscribers of PDAM shall be classified into 4 (four) groups, namely:
- a. Group I;
- b. Group II;
- c. Group III;
- d. Special Group.
- (2) Group I as meant in paragraph (1) letter a shall accommodate kinds of subscribers paying low tariff to meet the standard of basic need for drinking water.
- (3) Group II as meant in paragraph (1) letter b shall accommodate kinds of subscribers paying basic tariff to meet the standard of basic need for drinking water.

(4) Group III as meant in paragraph (1) letter c shall accommodate kinds of subscribers paying full tariff to meet the standard of basic need for drinking water.

(5) Special Group as meant in paragraph (1) letter d shall accommodate kinds of subscribers paying tariff of drinking water on the basis of agreement.

Article 11

PDAM can stipulate policy on kinds of subscribers in the respective groups as meant in Article 10 paragraph (1) on the basis of the objective condition and characteristics of subscribers in the respective regions as long as it does not change the groups of subscribers.

CHAPTER IV

CALCULATION AND PROJECTION OF OPERATING COST AND BASIC COST

Article 12

(1) Basic cost needed for producing every cubic meter of drinking water shall be calculated on the basis of operating cost divided by the volume of produced water, subtracted by the standard water loss volume in one year.

(2) The operating cost as meant in paragraph (1) shall be counted by totaling all management costs of PDAM, covering costs of water source, water processing, transmission and distribution, partnership cost, overhead and administration and financial cost in one year.

(3) The volume of produced water shall be calculated on the basis of the total volume of water produced by every production system, which is ready for distributing to consumers in one year.

(4) The standard water loss volume shall be counted on the basis of the standard of percentage stipulated by the Minister in charge of water resource affairs, multiplied by the volume of produced water.

Article 13

(1) The projection of basic cost in Rp/m³ or Rp/other volume unit shall be calculated on the basis of the projection of operating cost divided by the projection of volume of produced water, subtracted by the projection of standard loss volume in the projection year.

(2) The projection of operating cost of drinking water shall be counted on the basis of historical data by observing the projection of price, inflation, possibility of efficiency in cost, production plan and investment plan as well as plan of financing sources.

(3) The projection of produced water volume shall be calculated on the basis of historical data by observing production rate plan, distribution and development of new business.

(4) The projection of standard water loss volume shall be calculated on the basis of the standard of percentage stipulated by the Minister in charge of water resource affairs, multiplied by the projection of produced water volume.

Article 14

(1) Calculation and projection of costs to be used as reference in stipulation of tariff shall be accountable and auditable as well as observe efficient cost aspects.

(2) In order to calculate and project the cost, the following data shall be prepared:

- a. components of cost of water source;
- b. components of water processing cost;
- c. components of transmission and distribution cost;
- d. components of partnership cost;
- e. components of overhead and administrative cost;
- f. components of financial cost;
- g. components of productive asset;
- h. inflation rate;
- i. volume of produced water;
- j. standard water loss volume;
- k. selling volume of water to groups of low-tariff subscribers;
- l. selling volume of water to groups of basic-tariff subscribers;
- m. selling volume of water to groups of full-tariff subscribers;
- n. consumption block;
- o. group of subscribers;
- p. number of subscribers per block;
- q. number of subscribers per subscriber group;
- r. consumption rate;
- s. prevailing tariff;

- t. components of income from sales of water;
- u. component of non-water income;
- v. components of partnership income;
- w. elasticity rate of drinking water consumption to tariff;
- x. average income of subscribers; and
- y. provincial minimum wage.

CHAPTER V INCOME AND TARIFF

Article 15

- (1) Income of PDAM shall consist of:
- a. income from the sales of water;
 - b. non-water income; and
 - c. partnership income.
- (2) Income from the sales of water as meant in paragraph (1) shall cover:
- a. water price;
 - b. administrative service, including subscription; and
 - c. other income from sales of water.
- (3) The non-water income as meant in paragraph (1) letter b shall cover:
- a. income from new connection;
 - b. income from rent of installation;
 - c. income from laboratory water analysis;
 - d. income from fine;
 - e. income from inspection of subscriber installation;
 - f. income from replacement of not-working meter;
 - g. income from replacement of pipe;
 - h. other non-water income
- (4) The partnership income as meant in paragraph (1) letter c shall cover:
- a. income from royalty;
 - b. distribution of income from partnership;
 - c. distribution of partnership production; and
 - d. sharing of cooperation production.

Article 16

- (1) Every new subscriber shall be subjected to connection cost.
- (2) The connection cost as meant in paragraph (1) shall include the cost of procurement and installation of meter.

- (3) PDAM shall impose monthly fixed charge on every subscriber connection as the meter maintenance cost and account administrative cost.
- (4) PDAM shall make efforts to ensure that water meter always functions properly by adequate calibration and maintenance.
- (5) PDAM can impose monthly fixed income on passive subscribers.

Article 17

- (1) Tariff shall be differentiated in 4 (four) kinds, namely:
- a. low tariff;
 - b. basic tariff;
 - c. full tariff; and
 - d. agreement tariff.
- (2) The low tariff as meant in paragraph (1) letter a shall have the value lower than the basic cost.
- (3) The basic tariff as meant in paragraph (1) letter b shall have the value the same or equivalent to the basic cost.
- (4) The full tariff as meant in paragraph (1) letter c shall have the value higher than the basic cost.
- (5) The agreement tariff as meant in paragraph (1) letter d shall have the value based on the agreement between PDAM and subscribers.

Article 18

PDAM shall stipulate the structure of tariff on the basis of provisions on consumption blocks, subscriber group and kind of tariff.

Article 19

- (1) The tariff shall be calculated by the following phases:
- a. counting the basic cost;
 - b. counting the basic tariff;
 - c. counting low tariff and cross subsidy;
 - d. counting full tariff; and
 - e. stipulating tariff for subscribers of special group on the basis of agreement.
- (2) The calculation of tariff as meant in paragraph (1) shall refer to the formula of calculation of drinking-water tariff.

- (3) The amount of cross subsidy can be varying among groups of subscribers in difference sphere of service and shall be counted by using the subsidy calculation formula.

CHAPTER VI
MECHANISM AND PROCEDURES
FOR STIPULATING TARIFF
Article 28

- (1) The tariff -stipulation mechanism shall be based on the principle of proportionality of interests of:
- a. subscribers;
 - b. PDAM as business entity and operator; and
 - c. Regional government as owner.
- (2) The consideration about the interest of subscribers as meant in paragraph (1) letter a shall guarantee interest of consumers.
- (3) The consideration about interest of PDAM as meant in paragraph (1) letter b shall guarantee interest of PDAM as business entity and operator in achieving the target of full cost recovery, realizing vision, developing mission and achieving goal and target of development planned in the long term (corporate plan) of PDAM.
- (4) The consideration about interest of owner as meant in paragraph (1) letter c shall guarantee interest of regional government, investor or shareholder of PDAM in obtaining result from the management of PDAM in the form of provision of quality drinking water and/or profit to develop the public service.
- (5) Concept of recommendation about stipulation of tariff shall be consulted first with or subscriber representative or forum through communications media to obtain feed back before the recommendation is submitted to head of region.
- (6) Concept of recommendation about stipulation of tariff and supporting data and feed back from subscribers as meant in paragraphs (2) and (3) shall be submitted in writing to head of region through the supervisory board.
- (7) Based on result of deliberation about recommendation of stipulation of tariff and opinion of the supervisory board, head of region shall make stipulation approving or rejecting in writing to board of executive directors of PDAM in not later than 2 (two) months as from the date of receipt of the recommendation.
- (8) Based on stipulation of tariff by head of region as meant in paragraph (5), the board of executive directors shall issue decision on the amount of tariff for every subscriber.
- (9) The board of executive directors shall socialize decision on the amount of tariff to subscribers through mass media in not later than 30 (thirty) days before the new tariff is applied effectively.

Article 21

- (1) Tariff shall be stipulated by head of region on the basis of recommendation from board of executive director, after the supervisory board approves.
- (2) Concept of recommendation about tariff as meant in paragraph (1) shall be submitted by the board of executive directors of PDAM by considering the quality of service, cost recovery and target of service development, accompanied by supporting data as follows:
- a. basis for calculation of recommendation about stipulation of tariff;
 - b. result of calculation of basic cost projection;

Article 22

- (1) Annual tariff adjustment shall be done by indexation formula by counting:
- a. the value of annual inflation index in the relevant year, which is issued by the authorized government institution;
 - b. charge on loan interest; and/or
 - c. other parameters in accordance with cooperation agreement/contract.

- (2) The tariff adjustment as meant in paragraph (1) shall be proposed by the board of executive directors to head of region through the supervisory board for stipulation.

Article 23

- (1) The tariff can be reviewed periodically in extraordinary condition requiring change in corporate plan.
- (2) In order to ensure the continuous service of PDAM, board of executive directors can review tariff every five years.
- (3) The review as meant in paragraph (1) shall be proposed by board of executive directors to head of region through supervisory board for stipulation.

Article 24

- (1) In the case of head of region rejecting the recommendation about stipulation of tariff submitted by board of executive directors and the tariff being already the supervisory board on the basis of transparent and accountable calculation causing the average tariff to be lower than the basic cost, the regional government can strive to obtain subsidy for offsetting the shortage through APBD in accordance with legislation.
- (2) In order to synchronize the planning of tariff and development of PDAM in general and Regional Medium-Term Development Plan (RPJMD) and APBD, board of executive directors shall be formulate corporate plan as well as action plan and budget of PDAM by involving stakeholders.
- (3) Guidelines on formulation of corporate plan of PDAM as meant in paragraph (2) shall be regulated by the Minister of Home Affairs.

CHAPTER VII FOSTERING AND SUPERVISION

Article 25

- (1) The Minister of Home Affairs shall foster and stipulate tariff.
- (2) Governors shall supervise the implementation of guidelines on stipulation of tariff.

CHAPTER VIII TRANSITIONAL PROVISION

Article 26

Provisions of legislation related to stipulation of tariff of drinking water in PDAM, which are stipulated by regional governments shall be adjusted in not later than one year as from the date of stipulation of this regulation.

CHAPTER IX CONCLUSION

Article 27

Technique of stipulation of tariff of drinking water in PDAM shall be mentioned in the attachment to this regulation.

Article 28

With the enforcement of this regulation, Regulation of the Minister of Home Affairs No. 2/1998 on Guidelines on Stipulation of Tariff of Drinking Water in Regional Administration-owned Drinking Water Companies shall be revoked and declared null and void.

Article 29

The regulation shall come into force as from the date of stipulation.

Stipulated in Jakarta

On July 3, 2006

THE MINISTER OF HOME AFFAIRS

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H. MOH, MA'RUF, S.C.

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