



## **DETAILED REPORT**

**Subject: Calculation Proposal for the Maximum Average Tariff (P0) and X Factor of SABESP's 3rd Ordinary Tariff Review**



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## 1. INTRODUCTION

ARSESP conducted Public Consultation 03/2021, from February 9, 2021 to March 8, 2021, to receive contributions on the Calculation Proposal for the Maximum Average Tariff (P0) and X Factor of Sabesp's 3rd Ordinary Tariff Review, which is detailed in the Preliminary Technical Note NT.F-0005-2021, available on ARSESP's website. The calculation proposal was also presented at Public Hearing 01/2021, held on February 25, 2021.

This Detailed Report presents ARSESP's analysis and clarifications on all contributions received within the scope of the aforementioned public consultation and public hearing. The description of each contribution is presented in summary format and the full text and presentations are available on ARSESP's website. Contributions were made by:

- Claritas Investimentos
- Companhia de Saneamento Básico do Estado de São Paulo - SABESP
- Federação das Indústrias do Estado de São Paulo – FIESP
- Federação Nacional dos Urbanitários – FNU / CUT
- Instituto Democracia e Sustentabilidade – IDS
- Observatório dos Direitos à Água e ao Saneamento – ONDAS
- The Nature Conservancy do Brasil – TNC
- Vinci Partners

In this detailed report, ARSESP grouped contributions by topic. The Agency's responses were classified as: accepted, partially accepted and not accepted, and all are justified. Answers are also provided for questions and comments.

The final values adopted in the calculation for the Maximum Average Tariff (P0) will be presented in the Final Technical Note, along with the new Economic-Financial model, both incorporating the contributions that were fully or partially accepted in this process.



## 2. MARKET

- **FIESP**

**Contribution:** FIESP asks: What is a “approximate value to the historical figure” for ARSESP? Should we consider a precision of 1%, 0.1%, 0.01%, or 0.001%?

Unfortunately, the concept of “approximate value” has not been disclosed, jeopardizing our assessment of the projections made.

ARSESP projected a growth trajectory (real) in average monthly water consumption that is even higher than the amounts proposed by SABESP (see Table 1). It is also known that residential water consumption increased in 2020, with changes in the population's consumption habits arising from the increase in cleaning and home office practices. Therefore, was it not reasonable to expect a monthly unit consumption higher than what was projected in the previous review process? Or, at least, would it not be reasonable to project growth in monthly consumption per unit given the aforementioned context?

FIESP requests the disclosure of the distributed water and sewage volumes throughout SABESP's third tariff cycle, as well as the number of households served. Providing transparency for this information is essential for us to assess the historical behavior and verify the concept of “approximate value” used by ARSESP in this technical note.

In preliminary terms, and in line with the projection made by ARSESP in the previous review process, we propose a real growth in consumption per unit (water and sewage) of 0.5% per year, with the starting point being the amount calculated in 2020. If SABESP's data is reliable, the initial value will be 11.0 m<sup>3</sup>/month/unit.

**Answer: Not accepted**

**Justification:** The volume projection considered the unit consumption projected by the concessionaire, which is in line with the historical value provided in the economic model of the



Public Consultation (average of 10.96 m<sup>3</sup>/month from 2017 to 2019). In addition, the effects of the pandemic on consumption per unit are not yet clear enough for us to change the entire consumption profile for the cycle compared to historical data.

It is worth remembering that the concessionaire assumes the deviation risks between the actual and projected amounts in the market. Allocating a market growth that is higher than the projected amount in its business plan requires a high level of security about this growth, which is not the case. Thus, ARSESP maintains the consumption per unit projection presented in the Public Consultation.

**Contribution:** Regarding special uses, the Agency simply stated that “the information provided for such analysis were insufficient”. Again, we question the lack of transparency in the treatment given to the matter. Why was the information not sufficient? Was it due to ARSESP's lack of competence in auditing the amounts? Was it due to lack of transparency by SABESP? Why were these values simply adopted without any regulatory treatment?

If the available information was not sufficient due to SABESP's negligence, then the projection for “special uses” should be zeroed until the service provider complies with the regulation approved by the Agency.

Of the amount foreseen for “special uses” (more than 5% of total water supply), how much comes from clandestine use in irregular communities? How much is allocated for operational activities? How much is filter washing? Also, shouldn't the amounts for clandestine use in irregular communities be included in the non-technical losses index?

**Answer: Not accepted**

**Justification:** Regarding the first question in this contribution, according to the methodology in the technical note approved after the public consultation process in 2020, the projection for special uses would be carried out through a study done by the concessionaire and, in the lack of a



more detailed evaluation, the historical volumes would be used, added with a proportional growth in demand (cf. page 16 of NT.F-0043-2020).

ARSESP considered the information provided by SABESP not sufficient to change the projection metric.

However, precisely because we consider that an relevant portion of the special uses is ultimately related to water losses, we proposed keeping its amount constant and not associate it with the growth in demand.

The suggested hypothesis, to zero the projection of special uses, is not adequate since special uses also have volumes inherent to the distribution system (such as filter washing, for example) and emergency uses (such as fighting fires, for example).

ARSESP used its studies to define the regulatory loss target for the water balance model recommended by IWA - International Water Association, in which volumes from clandestine use in irregular communities are included and accounted for in the subcomponent "VUS - Volume of Social Use" , which includes the component "VNCD – Authorized Consumption Volume Not Sold in Distribution", as well as volumes from uses by service providers and for emergency uses, such as to fight fires, for example. Thus, in the current model, VUS was not included in the calculation for the regulatory loss target (precisely because it is part of the VNCD).

The regulatory loss target defined by the Agency includes the "VPDT - Volume of Total Losses in Distribution", which are not authorized in the system's water balance but are included in the volumes for fraud and clandestine connections "VCNA - Non-Authorized Consumption Volume".

During the technical study for the assessment of losses (ARSESP PROCESS 0260-2019), SABESP declared, in a technical note (PR-429/2020), that a degree of uncertainty exists in the losses presented for the water balances:

*“For SABESP, the main amounts used to prepare the Water Balance are measurement units (produced volumes, macro and micro-measured). Thus, the amount for the total loss portion is more reliable because it is determined*



*the difference between the volumes produced, or delivered, to the systems and the authorized consumption volumes, which are mostly comprised by the volumes supplied to users, which are measured, in addition to other operational and social uses, which are estimated.*

*The decomposition of this portion of total losses is made by estimates based on the following parameters:*

*(...)*

*The portion of the fraud volume (VCNA) is also extremely difficult to determine, since neither the number of occurrences nor the respective volumes are known, which vary significantly according to municipalities, and its estimate is made with high uncertainty based on assessments carried out on specific dates and extrapolated to the system's entire supply based on the technical knowledge of the local managers of each system”.*

Given these uncertainties and the need to have more details on the measurement, calculation and adequate technical and tariff treatment of these components, in terms of consumed volumes in irregular situations, we consider the following:

- (a) VUS (social use in irregular communities): consumption authorized by the service provider but not billed – these volumes will be monitored by ARSESP in specific actions through technical studies and on-site inspections, affecting the future concept of special uses;
- (b) VCNA (fraud and clandestine connections): unauthorized consumption not measured by the service provider – these volumes will be subject to complementary studies in SABESP's 4th tariff cycle, as provided in Technical Note NTF-0064-2020, in addition to the improvement points for the economic methodology for the losses used to define the regulatory target.

Figure 1: SABESP Water Balance in 2019



BALANÇO HÍDRICO SABESP						
Balanço Hídrico Produção e Distribuição - Sabesp - 12/2019 - Anual (m³/ano)						
VPII 1.972.796.019 68,7%	VCA 2.040.138.193 71,0%	VCAD 1.764.873.016 61,4%	VVA 271.021.836 9,4%		VAC 1.863.987.658 64,9%	
			VCACD 1.592.965.822 55,4%	VCMP 1.225.305.518 42,6%		
			VUS 157.951.722 5,5%	VUE 1.672.656 0,1%		
			VNCD 171.907.194 6,0%	VUPb 21.434 0,0%		
				VUPp 974.068 0,0%		
				VOD 11.287.314 0,4%		
			VOA 4.243.341 0,1%			VANC 1.009.203.427 35,1%
			VPDA 275.367.779 9,6%	VSUB 120.580.903 4,2%		
			VPDR 526.654.316 18,3%	VCNA 154.786.876 5,4%		
				VFCC 0 0,0%		
	VVAZ 526.633.847 18,3%					
VPSI 900.395.066 31,3%	VPT 833.052.892 29,0%	VPDT 802.022.095 27,9%	VVRES 20.469 0,0%	VPAT 31.030.797 1,1%		

Source: SABESP

- **SABESP**

**Contribution:** Registered and active residential units are used to calculate the service indicators. Registered units corresponds to the measurement for the household concept used by IBGE in its Demographic Censuses. Therefore, SABESP requests that the number of registered and active residential units be used.

**Answer: Not accepted**

**Justification:** ARSESP accepted SABESP's projection for serviceable households as well as the service and consumption per unit indicator proposed in the business plan. ARSESP'S methodology applies the service/collection rate (water or sewage) on serviceable households according to NT.F 0043-2020, using the concept of residential units. In this sense, changing the calculation methodology implies a methodological change, which would require new studies and discussions with society and the concessionaire





in the construction stage for the methodology of the tariff review. Therefore, this request for modification may be proposed for SABESP's 4th OTR.

**Contribution:** Another point is regarding the breakdown of units by category for the newly assumed municipalities: Mauá, Tejuπά and Tapiratiba.

Since these municipalities did not have a historical basis for projecting SABESP's residential, commercial, industrial, public and own units, total units and volumes were estimated for 2021-2024 period.

In practical terms, this means there was an increase in the amount of residential units for water and sewage.

**Answer: Accepted**

**Justification:** ARSESP accepted the change in the volume for the municipalities of Tejuπά, Tapiratiba and Mauá referring to residential units by changing the volume classified as non-residential to residential. Therefore, in the final model, residential and non-residential markets will be adjusted, maintaining the methodology for market projection. Note that this has a neutral effect for the P0 calculation.

### 3. SEWAGE TREATMENT

- **FIESP**

**Contribution:** For this topic, attention is drawn to the way in which ARSESP considers the “infiltrated water volume in the collection network” for its calculation of treated sewage. It is understandable that this volume be considered for the dimensioning of networks and treatment plants, but it gives a wrong economic signal to the concessionaire in terms of calculating operating costs (an increase of almost R\$ 250 million in OPEX for the cycle).



In addition to not originating in the units, this volume ends up contributing to the dilution of collected sewage and reduce treatment costs. Thus, we request for the volume of infiltrated water in the collection network be removed in the P0 calculation.

**Answer: Accepted**

**Justification:** ARSESP re-assessed this issue and understands that the inclusion of infiltrated water volume would require additional studies, therefore, it will not be included in this OTR and we will maintain the methodology previously adopted.

- **SABESP**

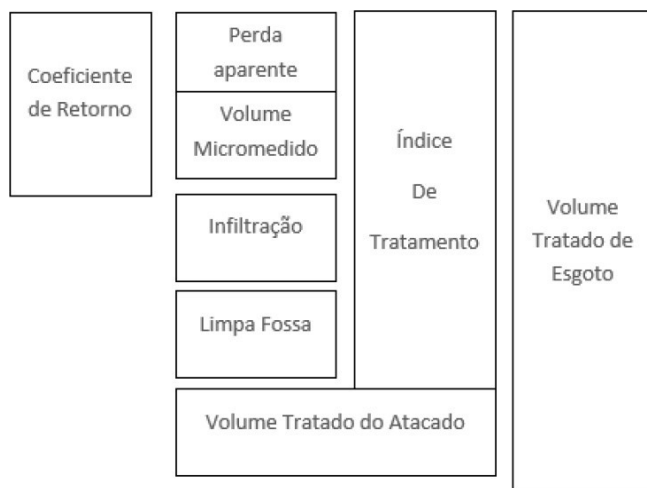
**Contribution:** Differently from the market calculation, in which the billing parameter for collected sewage is the same measurement as water in sewage connections, the supply parameter, which analyzes costs and expenses, considers the Return Coefficient on the adjusted water consumption due to the incorporation of a portion of apparent losses (micro-measurement errors and fraud).

Therefore, SABESP calculates the collected sewage volume generated in the retail segment by applying the 80% of the return coefficient to the micro-measured volume of water with sewage connections for residential and non-residential units, adjusted by the incorporation of the apparent loss portion. That is, 80% of the micro-measured volume, in addition to the apparent loss, returns as sewage to the collection network.

For ARSESP, the volume of sewage collected is the same as the micro-measured volume presented as the “Market” evolution. Therefore, the treated sewage volume considered by the Agency is higher than the volume calculated by SABESP, as it does not use the return coefficient, in addition to the differences arising from the market estimate based on the registered and unbilled units mentioned in the previous item.

Accordingly, we request ARSESP to apply the general logic shown above and to reconsider the treated sewage volumes based on the information provided by SABESP.

Figure 2: General Logic for Calculation of Sewage Treated by SABESP



Source: SABESP

**Answer: Not accepted**

**Justification:** The proposed logic seeks to estimate generated sewage volume as opposed to using the measured water volume as a specific criterion for projecting costs. In this sense, the proposal sums the micro-measured water volume and the apparent loss volume (obtaining from the actual user consumption volume) and applies the return coefficient.

The model originally proposed would also add the volume of infiltrated water to the network for the purpose of determining the total volume to be treated.

Based on other contributions received, ARSESP decided to not include the infiltration volume in the model. Furthermore, there is no specific estimate for apparent losses (the model currently adopted by ARSESP considers a total loss volume).

Thus, for the time being, ARSESP decided to maintain the previous methodology without adjusting infiltration, losses and the return coefficient. The matter will receive in-depth analysis throughout this cycle in order to be adjusted for SABESP's 4th OTR.



#### 4. LOSSES

- **FNU / CUT**

**Contribution:** The loss per l/connection/day indicator distorts the result, as the number may be diluted with the expansion of connections without investments in loss reduction having necessarily occurred. The right thing to do would be to consider the percentage of distributed volume that was lost.

**Answer: Not accepted**

**Justification:** The matter is not the object of this Public Consultation and has already been addressed in Public Consultation 11/2020.

- **Observatório dos Direitos à Água e ao Saneamento – ONDAS**

**Contribution:** Suggests replacing the loss indicator from l/connection/day to % of volume lost.

**Answer: Not accepted**

**Justification:** The matter is not the object of this Public Consultation and has already been addressed in Public Consultation 11/2020.

- **SABESP**

**Contribution:** Under the current conditions in which it is applied, it is important to consider the NEP results only as a reference which needs to be improved due to its many uncertainties,



both in terms of necessary improvements to the model, as well as the uncertainties of the information used in its application.

This Company's view is that the alternative that should be considered by ARSESP should be the lowest indicator per municipality, between: i) the average of the years (2016 to 2019), or ii) the indicator for the year of 2019.

In this context, considering the investments and expenses to be made in the next tariff cycle, the Company ratifies that the feasible target for total loss rate in Dec/2024 is 249 L/connections/day and requests that this amount be considered by ARSESP for projecting OPEX for regulatory losses.

**Answer: Not accepted**

**Justification:** The matter is not the object of this Public Consultation and has already been addressed in Public Consultation 11/2020.

## 5. OPERATING COSTS AND EXPENSES - OPEX

### 5.1 Qualitative Disallowances

- **SABESP**

**Contribution:** In its contribution to public consultation 06/2020 regarding the methodology to be applied for the 3rd OTR, SABESP requested ARSESP to present individual disallowances, clearly justifying that once the Company is aware of the justifications, it could prepare its arguments more precisely and objectively. This contribution was accepted without reservations. However, the Agency's preliminary note for the P0 calculation included only a table with the accounts that had qualitative disallowances in OPEX, without explaining the reasons for such disallowances.



We request recognition of PEP elements (inventory assets; conservation of real estate and facilities; project materials; other materials; small consumer tools; registers and valves; pipes and connections; third-party services; services and materials - projects; indirect costs; expropriation - ventures; liquidation of internal labor)

**Answer: Accepted**

**Justification:** PEP elements usually include expenses that, at the end of the evaluation period, can be part of both OPEX and CAPEX (as capitalized expenses). SABESP informed in its contribution that the amounts presented above referred exclusively to the amounts that were recorded as OPEX and had not been reclassified in to their specific accounts. Therefore, ARSESP accepts this contribution.

**Contribution:** Requests recognition of Management Bonus; Profit Sharing; Complementary Private Pension – G0; Private Pension - Pension Deficit BD

**Answer: Not accepted**

**Justification:** ARSESP understands this amount should be remunerated by the company's results and should not be assumed by the users of the services. The disallowance of these items has usually been applied by ARSESP.

**Contribution:** Requests recognition of Environment - Environmental Compensation; Regularization of environmental recovery commitment term – services.

**Answer: Not accepted**



**Justification:** Such penalties are risks to be assumed by the service provider and users are not responsible for such expenses.

**Contribution:** Requests recognition of labor indemnity.

**Answer: Not accepted**

**Justification:** In its contribution, SABESP indicates that this account is intended for recording indemnities arising from labor lawsuits. Therefore, considering these amount does not represent usual labor obligations, but rather as a result from lawsuits, which are subject to the management by the service provider, ARSESP understands that it is not possible to transfer this burden to users.

**Contribution:** Requests recognition of Urban Property and Land Tax (IPTU).

**Answer: Accepted**

**Justification:** The amount was incorrectly identified as a disallowance and should be included in regulatory expenses.

## 5.2 Projection Criteria

- **FIESP**

**Contribution:** Given the need to reduce government expenses, civil service exams, pensions, volunteer dismissal programs and outsourcing services, the amount spent on personnel expenses should reduce over time (in real terms).



Therefore, we ask ARSESP to reassess its real growth proposal of 0.5% p.a. as personnel expenses. If possible, we propose a real reduction of 0.5% p.a. in personnel expenses.

**Answer: Not accepted**

**Justification:** The model used to project personnel costs considered the maintenance in number of employees and is not linked to any projection driver. Therefore, by using a 0.5% p.a. growth in expenses allows the possibility of cost growth, albeit limited. Including an annual reduction, in real terms, would imply a significant and, in ARSESP's understanding, an excessive demand for efficiency for this group of expenses.

- **FNU / CUT**

**Contribution:** Suggests that the performance contract be withdrawn from the tariff since this strategy is chosen by the company and it's a business strategy Any other strategy could have been chosen and, therefore, the tariff should not include this amount.

**Answer: Not accepted**

**Justification:** Firstly, it is important to understand that amounts related to performance bonuses were not projected for this cycle. On the other hand, the technical note informs that investments made with this type of contract may be included in the asset base (including the bonus amount in the base when it is linked to the fixed assets or as operating costs when it is not linked to the assets, but to commercial activities, for example).

We also highlight that ARSESP will carry out the necessary prudence analysis to incorporate these assets and their respective amounts.





SABESP, when entering these contracts, has the objective of achieving specific results and therefore expects to pay the lowest possible cost. As indicated, SABESP must submit the new performance contracts to ARSESP, along with a feasibility study and information that allows assessing the affordability gains and the prudence of this type of contract (advantages compared to own execution), similarly to the PPPs. The submission must include the indication of “bonus” amounts that are not strictly related to physical assets or expenses usually capitalizable (labor, studies, projects, licenses, among others).

- **SABESP**

**Contribution:** SABESP requests that a single criterion is used for the unit costs of the General Materials, Third-Party Services and General Expenses accounts, which should be the average for the 2017-2019 three-year period. With this proposal, it is necessary to replace unit costs with reference amounts from the 2nd OTR and unit costs with reference to the 2017-2019 average unit costs for the 2017-2019 three-year period for these groups of expenses. Thus, greater uniformity is achieved for assumptions, in line with ARSESP’s position in the Detailed Report (RC.F-0005-2020), which states that it would not use the costs of the 2nd OTR as a reference for projections.

**Answer: Not accepted**

**Justification:** Arsesp will maintain its OPEX projection methodology as approved in the Methodological Technical Note. The use of averages or median, depending on the standard deviation, is necessary as certain expenditure accounts have erratic behaviors. Therefore, using only the average amount could distort the projection in the categories with such behavior.

Additionally, in the aforementioned Detailed Report (RC.F-0005-2020) there is no mention that costs from the 2nd OTR would not be used as a reference for the projection. The answer



presented was that "the definition of the reference unit costs will observe specificities that occur in the cycle".

Therefore, ARSESP believes it is complying with what was stated since the methodology adopted considers the specificities of the cycle, keeping as a reference the lowest amount between the 2nd OTR and the 2017/2019 cost per unit (average or median, as appropriate). Accordingly, this avoids approving an inefficient "increase" that has not been justified in the cycle.

**Contribution:** SABESP reaffirms the need to incorporate the 2% p.a. real for personnel expenses. This is a conservative scenario, since the growth in personnel expenses related to Job and Salary Plans (PCS), Training, and Health Plan was, on average, 2.81% p.a. from 2017 to 2019, compared to total headcount expenses in 2016.

**Answer: Not accepted**

**Justification:** In view of the principle of prudence and reasonable tariffs and, in order to induce a trajectory of efficiency, ARSESP maintains the inclusion of a real growth of 0.5% p.a.

**Contribution:** SABESP understands that, for the OPEX projection for electricity, it is not reasonable to use the average unit price from 2017 to 2019. The correct amount would be by using the 2019 unit price (the latest year), given the growing real effective cost of MWh acquisition, which is more in line with the current reality of the electricity market.

**Answer: Accepted**



**Justification:** ARSESP changed the unit price for the year 2019, considering this contribution to be adequate.

**Contribution:** Although ARSESP has accepted the incorporation of additional costs with third-party services into NT.F-0005-2021, it considered the global amount of these additional expenses to be R\$300 million (R\$75 million annually), which is lower than SABESP's amount of R\$332,270,966.

It is understood that the Agency's requirement for SABESP to submit, on an annual basis, additional service contracts carried out each year is not consistent with the incentive regulation model, which is applied to SABESP in the PRICE CAP model, aimed at creating incentives for the Concessionaire to act efficiently, reducing costs while maintaining service quality. The model's idea is to precisely apply an efficiency factor to the concessionaire's regulatory costs, encouraging it to obtain gains over time.

Thus, we request ARSESP to review this proposed cost control mechanism and maintain the logic of an incentive regulation model, in line with the same treatment given to other OPEX expenses which object of this Tariff Review.

**Answer: Not accepted**

**Justification:** It is ARSESP's prerogative to carry out economic and financial inspection. Furthermore, ARSESP considered it appropriate to accept the replacement of personnel costs by third-party costs, but it does not find it reasonable to allow users to bear the risk related to an effective cost exchange between the items.

Therefore, ARSESP will maintain its inspection forecast for these expenses throughout the cycle and will apply any compensatory adjustments in the next OTR.



The regulatory objective is not to penalize the concessionaire in contracts with third parties, but to ensure the projected increase was essential and carried out in a prudent manner so that it does not jeopardize users with a regulatory cost higher than necessary.

- **Vinci Partners**

**Contribution:** The calculation of energy OPEX recognized in the preliminary P0 implies that SABESP has lost efficiency and is inefficient in purchasing energy. Using the average of the last years, or the reference of the previous cycle, as a projection parameter sets an unattainable efficiency goal. No matter how efficient a company is, it will not find an option to purchase energy on the market at a previous price.

In summary, given this unmanageable nature of energy prices, the projected price should seek to be as close as possible to the price SABESP pays and must pay from 2021 to 2024. We believe the most recent price is the best proxy for the coming years, as projecting prices in the free and regulated markets would require specific knowledge and would make the calculation excessively complex.

Therefore, our proposal is to use the last price (2019 or, ideally, 2020) in the projection since it is the closest to what should happen over the next cycle.

**Answer: Accepted**

**Justification:** ARSESP changed the unit price for the year 2019, considering this contribution to be adequate.

## 6. INVESTMENTS

- **FIESP**



**Contribution:** According to ARSESP, there was a failure in data presented since "SABESP did not send all the data with the requested breakdown". Complaints about the Company providing inadequate information are recurrent. In these cases, the Agency must apply more rigorous disallowances as punishments for SABESP's negligence: if data is not provided within the requested standards and this generates questions, the Agency should not accept the data or proceed as conservatively as possible, against SABESP.

In table 7.1, the program "VIDA NOVA (SPRINGS)" stands out. Note that in item "6.5. Water Preservation Program" ARSESP decided not to include expenses with water preservation until a positioning has been issued by PGE/SP. Therefore, this account should not be included in CAPEX – as we argued in our contribution regarding the Tariff Review Methodology.

**Answer: Not accepted**

**Justification:** The Vida Nova Mananciais project, according to the concessionaire's Business Plan, has as its main work the implementation of the Embu-Mirim Nutrient Removal Station in the Guarapiranga System. In addition, there are plans for the construction of a trunk collector and connection of units to the concessionaire's system, for example. In other words, this is an asset dedicated to the regulated service and not an additional activity to protect water sources (a topic that is still under discussion by the Agency and was not incorporated into the current tariff calculation).

- **Federação Nacional dos Urbanitários – FNU / CUT**

**Contribution:** Suggests that a simplified table be included in the Final Technical Note, containing summary information for the on the elapsed cycle, such as which investments generated how many kilometers of network, number of connections, cubic meters of treated sewage, transported water, and main investments in the past and future. This would help to better understand what is being paid in the tariff.



**Answer: Not accepted**

**Justification:** The assessment of the investments projected in the cycle has already been included in the Technical Note as well as in SABESP's Business Plan. In relation to past investments, as provided in the Technical Note, after validation of the asset base, they shall be included in a specific technical note detailing the investments that were executed.

## **7. REGULATORY REMUNERATION BASE (RRB)**

### **7.1 Incorporation of Assets from Newly Assumed Municipalities**

- **FIESP**

**Contribution:** Regarding the incorporation of assets from the new municipalities into RRB, FIESP questions if reviews were carried out to find out if they are in compliance with the principles of efficiency, prudence and reasonableness, a regulatory condition for entering the remuneration basis.

Negotiations for the incorporation of new municipalities into SABESP's base do not happen overnight. This is a vast and long negotiation process, requiring many details and conditions for services to be provided. Thus, the date of inclusion of this new municipality is predictable. Therefore, promoting a tariff adjustment in the middle of the cycle, which will impact all SABESP's consumers if the RRB to be incorporated is greater than 1% of NRRB, is not coherent.

FIESP proposes that new municipalities be incorporated only during the OTR processes, without extraordinary tariff adjustments during the cycle. Any tariff liability arising from the inclusion of a new municipality should not increase tariffs of other municipalities served by SABESP.



**Answer: Not accepted**

**Justification:** The assets referring to new municipalities were incorporated into the Regulatory Remuneration Basis on a preliminary basis and will undergo inspection processes, as informed in the Technical Note. Subsequently, the necessary compensatory adjustments will be applied, as well as any necessary disallowances on assets. We reiterate that, according to Technical Note NTF-0005-2021, and if there is enough time for the calculations and revaluations, when services begin to be provided in municipalities whose asset base value to be incorporated in SABESP's RRB, net of depreciation, is higher than 1% of the NRRB of the cycle in progress, they will be included in the base considering the potential imbalance that the inclusion of new markets can generate in cash flow results. It is important to point out that the inclusion will not only be for assets, but also for additional market volume, which may, depending on the balance between assets and volumes, cause a tariff reduction.

- **FNU / CUT**

**Questioning:** Questions if the asset base of the municipality incorporated into the company's operation should be included in its RRB or if these assets belong to the entity that effectively made the investments, even more if they have already been amortized.

**Answer:** The asset base incorporated into the RRB refers to eligible assets and the are included at their value net of depreciation, that is, assets that have already been 100% depreciated/amortized are not included in the RRB for tariff calculation purposes. These assets, however, still have operating and maintenance expenses.

It is also important to note that SABESP can incorporate the assets in a non-onerous manner, based on contractual negotiations. In this case, the assets are also not part of the RRB.



- **SABESP**

**Contribution:** SABESP reiterates the request made through Official Letter PR-035/2021, which requested that the assets from the municipality of Santo André be included in the Initial Regulatory Remuneration Basis of the 3rd Cycle for the purposes of calculating the tariff for the 3rd OTR.

Finally, it is worth noting that the economic-financial model used to calculate the required revenue involves, among others, market assumptions, cost assumptions, amortization and remuneration of the asset base. Since the market and cost assumptions for the municipality of Santo André have already been considered in the preliminary P0 calculation, it must also include the adequate amortization and remuneration of the assets that were not yet included.

**Answer: Accepted.**

**Justification:** The assets from the municipality of Santo André incorporated into the Regulatory Remuneration Basis were not used to calculate the preliminary P0 due to the deadline SABESP had to send the information, thus not having enough time to include them in the model. The municipality of Santo André was incorporated into the Regulatory Remuneration Base and will be included in the final P0 calculation.

## 7.2 RRB Calculation

- **Vinci Partners**

**Contribution:** In the spreadsheet, tab "BRR0", cell I13, the gross base is calculated as the sum of three portions: (i) shielded base, (ii) incremental base until June 2019 and (iii) reassessment of disallowances. However, the following was missing:

1. Investments from July 2019 to December 2020;





2. Price updates, as of October 2020, for items (i) and (ii) above, which are at June 2019 prices.

**Answer: Accepted**

**Justification:** ARSESP made adjustments to the asset base, adding the investments from July 2019 to December 2020 in the total RRB, as well as updating the entire base according to the October 2020 prices.

**Contribution:** Differently than other income and expenses, depreciation for accounting and tax purposes was not adjusted for inflation. Investments are recorded at historical cost, which causes depreciation to remain constant in nominal terms and, therefore, reducing in real terms.

In real terms, accounting depreciation should reduce every year when estimating P0. By not doing so, there will be an overestimation of depreciation at book value. We propose that the depreciation at book value used to calculate the P0 should be calculated in another way:

1. The initial base depreciation amount is the amount reported by SABESP in 2019, without any adjustment (R\$1.78 billion);
2. For the depreciation of incorporations, we convert the amounts calculated in the P0 spreadsheet to nominal values, adjusting the amount for inflation only in the year in which depreciation begins. The amount should be kept constant in subsequent years (second table below). This procedure aims to replicate what actually happens in practice (investment recorded at historical cost, without subsequent adjustment for inflation);
3. When bringing the depreciation of the initial base to nominal value and the incorporations to the revision currency, that is, as of October 2020 (rows A and B below);
4. We add lines A and B (depreciation of the initial base and the incorporations).

**Answer: Not accepted**



**Justification:** The treatment given to accounting depreciation was the object of the methodology public consultation. The adjusted amount at the beginning of the cycle is used only to estimate the depreciation for the first year of the cycle, adding up the additional depreciation arising from the new investments. It is important to note that this item will have a compensatory adjustment at the end of the cycle against what was actually reported, according to NT.F 0005-2021.

## 8. REVERSAL OF DISALLOWANCES FROM THE 1st OTR

- **Claritas**

**Contribution:** Regarding the disallowances from the 1st OTR, the most appropriate regulatory treatment would be to go back to the first tariff cycle, recalculate the remuneration and depreciation that SABESP should have had in this period for these assets, update these amount to current currency and seek the best way to compensate the concessionaire for its revenue loss.

**Answer: Not accepted**

**Justification:** As provided in Annex III of NT.F 0005-2021, the result of ARSESP's DEF 07 action - Evaluation of the disallowances made in SABESP's asset base in the 1st Tariff Review - does not aim to correct material errors but is a revaluation, by the Agency, of the technical aspects that made up the formation of the construction kits that defined the prices of water and sewage pipes. Thus, the effects of the reconsiderations presented in this report should be observed as of the 3rd OTR, and compensatory adjustments will not be necessary.



- **SABESP**

**Contribution:** Requests that the Agency reevaluates the calculation of the change in reversal of disallowances for pipes, as of October 2020, considering the amounts calculated by SABESP.

Appendix I - “*Reversão-Glosa-Ciclo1.xlsx*”.

**Answer: Partially accepted**

**Justification:** ARSESP reassessed the calculation for the reversal of pipe disallowances, carrying out the analytical change (by asset). This calculation included changes until December 2020, starting from the Shielded Base remodeled and shared with SABESP as established in ARSESP Official Letter OF.FF-0035-2020, and the Shielded Base with changes until 2016, shared with SABESP as established in ARSESP Official Letter OF.FF-0011-2020. The method consisted of including the new values of UP 8 assets (pipes) in the shared bases and making three sequential changes in pipes: (i) starting from the asset base - UP 8 - with reversal of disallowances - of September 2011, with changes it until June 2016. Then, changes from July 2016 to June 2019 and, finally, changes from July 2019 to December 2020.

**Contribution:** Based on the premise that the amount of reversal for disallowances in 2020 should be revised and the report of the municipality of Santo André incorporated into the RRB, SABESP highlights and requests the need to adjust the initial RRB in December 2020. The inclusion of the municipality of Santo André and the recalculation of disallowances (R\$3.22 billion against R\$2.69 billion for ARSESP) imply an Initial RRB of R\$57.172 billion at October 2020 prices, which corresponds to a difference of R\$ 1.667 billion in relation to the Agency’s projections (R\$55.504 billion).

The next step is to adjust the change in RRB flow until 2024. The inclusion of the aforementioned municipality from the ABC Paulista region and the revision of the disallowance amount generate an impact on the



Gross RRB amount, which directly influences the calculation of the Shielded Base depreciation during the cycle. We highlight in Table 19 an estimate of the Gross RRB in December/2020 and the amounts presented by ARSESP, at October 2020 prices.

Appendix II - “*Movimentação BRR Ciclo 3.xlsx*”

**Answer: Partially accepted**

**Justification:** ARSESP incorporated the Santo André report into the asset base and recalculated the changes in disallowances. On the other hand, the change in shielded and incremental bases was also carried out until December/20, being that the accumulated depreciation from this change was higher than the accumulated depreciation estimated in the economic-financial model (MEF) for the period from Jul/ 19 to Dec/20. Thus, the initial RRB resulted in R\$55.9 billion, at October/20 prices.

**Contribution:** In this sense, SABESP requests that the reversal of the total amounts of these two items be considered in the compensatory adjustments for the 1st and 2nd cycles, as was the treatment given by ARSESP in the reversal of the 15% disallowance that had been applied on the amount of the networks' units, besides, obviously, composing the amount of the initial RRB for the 3rd OTR.

Appendix III – Calculation Memory for IRRB and TRRB

**Answer: Not accepted**

**Justification:** As provided in Annex III of NT.F 0005-2021, the result of ARSESP's DEF 07 action - Evaluation of the disallowances made in SABESP's asset base in the 1st Tariff Review - does not aim to correct material errors but is a revaluation, by the Agency, of the technical aspects that made up the formation of the construction kits that defined the prices of water and sewage pipes. Thus, the effects of the



reconsiderations presented in this report should be observed as of the 3rd OTR, and compensatory adjustments will not be necessary.

## 9. WATER PROTECTION FUND

- **IDS**

**Questioning:** Regarding the Water Protection Program and ARSESP's consultation with the São Paulo State Attorney General's Office (page 28), we would like more information: is the document that registered this consultation available and can it be publicly consulted? If so, where can it be found or how can it be requested from ARSESP? What was the reason for this consultation? Is there a time perspective or internal deadline for the State Attorney to issue an opinion?

**Answer:** According to Technical Note NTF-0005-2021, considering the questions received in Public Consultation No. 05/2020, the Agency submitted a consultation to PGE/CJ ARSESP aimed at: (i) consolidating the legal interpretation regarding its attributions to implement a specific water conservation program with the resources from the tariff for sanitation services provided by SABESP, (ii) defining the need for specific public consultation on the matter, and (iii) entering into a cooperation agreement with municipalities and water resources managers, among other specific matters. The consultation was carried out via dispatch (FL.DESPACHO.SF-0259-2020), which is not confidential and can be requested from ARSESP via its SIC department (*Serviço de Informação ao Cidadão*). We are still awaiting the answers to the questions and there is no statutory deadline for the PGE to issuance its opinion.

**Questioning:** Regarding the same matter, in the excerpt: “Considering the questions received in Public Consultation 05/2020 related to ARSESP’s powers to implement a specific program for conservation of water sources



using funds from the tariff of sanitation services provided by SABESP, the Agency sent a consultation to PGE/CJ ARSESP, which is pending response” (page 28, our highlights) is there not a problem in the understanding and/or writing of this matter? Isn’t the Agency’s attributions limited to evaluating the inclusion of this program within the tariff calculation logic and, therefore, its regulatory practice? In other words, the Agency’s attributions is not exactly to implement the program, right?

**Answer:** We do not believe there is a misinterpretation, given that there is no questioning about the Agency’s attributions, as a regulatory and supervisory agent of public basic sanitation services, for the inclusion of programs within the tariff calculation logic. The implementation of water conservation programs is a policy with wide repercussion involving public sectors at the municipal, state and federal levels in areas such as environmental and water resources, regulated companies, organized civil society and other social players. Therefore, regarding the implementation and operation of a specific water preservation program by the Agency, in view of the powers of the water resources management bodies of the State of São Paulo and the need for a public policy (law, decree) by the State and/or municipalities, the question was made to the PGE/CJ ARSESP.

**Questioning:** Also regarding the Water Protection Program, what are ARSESP’s justifications for considering them in the accounts, at least initially as an operating cost (OPEX)? What are the benefits and points of attention for this decision? Why not consider the Water Protection Program as an investment (CAPEX)?

**Answer:** The study regarding water sources is ongoing, with no final regulatory definition of what treatment should be given. Thus, further clarity on the matter will occur during the study and execution, or not, phases for said water conservation program within the scope of the tariff review processes that will be the object of public consultations.



Including the program as investment implies recognizing it as part of the service provider's asset base. Therefore, what can be immediately indicated is that an asset will only be included when it is part of the service provider's regulated service. On the other hand, the direct inclusion, similar to OPEX, can be done for any expenses or costs that are part of the required revenue formation.

## 10. OTHER OPERATING COSTS

### 10.1 Municipal Fund for Basic Sanitation Services

- **FIESP**

**Contribution:** Municipal funds should be collected only for municipalities where they were instituted, just like charging Public Lighting fee for electricity. SABESP's invoice should be the only means of collecting the funds, when applicable.

Regulating these funds is not one of ARSESP's attributions. In addition, the Agency violates the principles of efficiency and proportionality as it create a cross subsidy between the municipalities served by SABESP. It also violates the principle of transparency by not disclosing the use of these funds.

As this was the treatment given to the funds in the previous cycle, FIESP questions how much and where the funds collected by these funds were applied, since, as it was included in the tariff, a compensatory adjustment must be made.

**Answer: Not accepted**



**Justification:** The matter is not object of a public consultation and the criteria and conditions for the municipal sanitary funds to receive tariff recognition are provided in ARSESP Resolution 870, of May 13, 2019.

- **FNU / CUT**

**Contribution:** Transferring fund resources through SABESP increases WACC, in addition to being subject to duplicated taxes, such as wire expenses (using TED fees) to other institutions. We suggest the resources be highlighted in the banking statement, such as they are in electricity bills, and that the amount should be transferred directly to the respective fund, without going through the company.

**Answer: Not accepted**

**Justification:** The matter is not object of a public consultation and the criteria and conditions for the municipal sanitary funds to receive tariff recognition are provided in ARSESP Resolution 870, of May 13, 2019.

- **IDS**

**Questioning:** Regarding the Municipal Sanitation Funds, what have been the Agency's efforts with the municipalities to support and train them in creating and qualifying for such funds?

**Answer:** The Municipal Funds for Basic Sanitation are exclusively created by the own efforts of the service providers. Some municipalities regulated by ARSESP signed contracts with the service provider that included a forecast of a percentage of the tariffs to be allocated to the Municipal Fund. For these cases, ARSESP issued Resolution 870/2019, which provides for a tariff component of up to 4% and only if the detailed formal qualification requirements are met.





ARSESP has a trained technical team to assist in this qualification process, providing services and support to the participating municipalities and instructing them how to request the application process.

It should be noted that transfers to municipal funds defined contractually, which is one of the requirements contained in the ARSESP resolution, and without the contract authorized recognition of the tariff component does not occur.

- **SABESP**

**Contribution:** ARSESP considered the year of approval and not the actual year in which the contract was signed. This does not comply with Article 15 of Resolution 870, which states:

Sole Paragraph - Municipalities who signed contracts after the conclusion of SABESP's 2nd Ordinary Tariff Review and have implemented municipal sanitation funds, whose resources are intended to be used in actions carried out by the granting authority, the transfer to such funds may be recognized in the tariff component as of the date the respective contract was signed, observing the period referred to in the *caput* of this article.

**Answer: Not accepted**

**Justification:** According to Article 9 of Arsesp Resolution 870/2019: "The amounts to be transferred to the municipal basic sanitation funds will only be incorporated into the tariffs after the tariff review processes and upon ARSESP's analysis and conclusion of the qualification process, by means of a specific resolution." Therefore, it is from the time the process is approved that the transfers can effectively be incorporated into the tariffs. The sole paragraph of Article 15 refers to a specific situation, when a municipality had already signed the contract after the 2nd OTR and would like to regularize the fund's situation pursuant to the new resolution issued to recognize the transfer amount into the tariff, therefore it is not a general rule.

## 10.2 Granting of Water Resources



- **IDS**

**Contribution:** Recommends a reassessment of the costs associated with the charging for the use of water resources that are included in the tariff calculation. In this current tariff cycle, this cost is expected to be approximately R\$87 million per year. The fact that SABESP can pass on this cost in full to its users is contrary to the legal purpose of this instrument, pursuant to Federal Law 9,433/97. The change promoted by ARSAE/MG in the last COPASA tariff review (2020) advances in this direction and can be a reference for such reconsideration by ARSESP.

**Answer: Not accepted**

**Justification:** The inclusion of charges related to the use of water resources in a specific line of the model was to clarify, to society, the amount paid and that it will have a compensatory adjustment. In the 2nd OTR, said amount was already included in OPEX but now it is included in a specific line due to the non-incidence of the X Factor. It is important to note that the payment for the use of water resources benefits all users and not only those linked to the municipality of said resource, given that the payment is intended to ensure quantitative and qualitative control in the use of water resources and the effective exercise of the right to water access.

## 11. COMPENSATORY ADJUSTMENTS

- **IDS**

**Questioning:** Considering the importance of the collective effort during the Covid-19 pandemic and that the public policy adopted by SABESP to exempt charging tariffs from families registered in the social tariff category, from March to July 2020, how will the compensatory adjustment



of R\$127 million (page 45) be communicated to society? In other words, the fact that all SABESP's users will be responsible for "paying this bill", given this extremely important purpose and public interest, will this compensatory adjustment, that may result in a possible revenue loss to the service provider, be widely communicated?

**Justification:** ARSESP communicates widely to society through its public hearings and consultations, and it also discloses the entire tariff review process on social media networks and on its website, providing all necessary explanations and the calculation base. It is important to point out that the compensatory adjustment was made according to the Resolution that approved this payment exemption from low-income users.

- **SABESP**

**Contribution:** ARSESP did not use the data in Table 12.3 to adjust the amounts for December 2016. Thus, SABESP proposes that the inventory variables be adjusted according to the index of December of each year, and the flow variables should be adjusted according to the monthly average of the same index.

**Answer: Not accepted**

**Justification:** This table was used to calculate the revenue required for the compensatory adjustment. The indexes used are the ones accumulated from Dec/2016 to March of the corresponding year, considering the X Factor in the composition of the final amount. As the next adjustment step, the amounts are converted into the currency rate for Oct/2020 (the same currency as the flow of the 3rd OTR) and it is over this amount that the WACC is applied.



**Contribution:** SABESP requests clarification and the calculation details for the working capital presented in the cash flow.

**Answer: Accepted**

**Justification:** ARSESP included, in the final economic-financial model, the calculation details for the working capital of the cash flow in the compensatory adjustment.

**Contribution:** ARSESP added to the “Other obligations” account, when calculating the compensatory adjustment, the amounts for the PPPs and Program Contract Commitments. This method is different from the one used in Chapter 9.6 of the Technical Note, when the 2019 inventory working capital was presented along with the projections for the new cycle. SABESP requests that the calculation should be done according to the methodology in NT.F-0043-2020 and consistent with the projection made, that is, not adding the amounts of PPPs and Program Contract Commitments to the "Other obligations" account.

**Answer: Accepted**

**Justification:** The final version of the model considered these adjustments.

**Contribution:** There needs to be a compensation for the change in consumption profile of the categories due to the effects of the COVID-19 pandemic in 2020.

The change in the market’s consumption profile (mix), which remunerates the Company, can strongly this since tariffs for each category are significantly different.

We request that the amount of R\$516,080,162.84 not used during 2020 be incorporated as a compensatory adjustment of the previous cycle.



**Answer: Not accepted**

**Justification:** There is no provision for compensatory adjustment due to changes in market composition, emphasizing that, as a rule, the service provider bears the market performance risk. If an assessment of economic and financial imbalance is necessary, the service provider may request this as an Extraordinary Review, at any time.

**Contribution:** After our assessment, we saw that the Compensatory Adjustment calculation (with less or excess revenue) and the way this adjustment is inserted in the Economic-Financial Model of the subsequent cycle (cash outflow) are not the same.

**Answer: Partially accepted**

**Justification:** ARSESP changed the calculation method for the compensatory adjustment in the 3rd OTR, calculating it separately, which is available in the final economic-financial model. In relation to the cash flow of the 2nd tariff cycle, it is not the object of this public consultation.

- **Vinci Partners**

**Contribution:** In the IRPJ/CSLL calculation base, income and expense items are included, however, the Compensatory Adjustment line was not, which has income or expenses to decrease or increase the P0. In our opinion, the Compensatory Adjustment should be part of the IRPJ/CSLL calculation base.

**Answer: Not accepted**



**Justification:** The compensatory adjustment calculation includes payment, lower or higher, of IRPJ/CSLL for the period, thus, when if we include the IRPJ/CSLL of the following review, it will be double counted for the concessionaire (either higher or lower). As will be shown in the final technical note, the compensatory adjustment will be calculated separately in the model.

## 12. ECONOMIC-FINANCIAL MODEL

- **ONDAS**

**Contribution:** The Tariff Repositioning Index amount should be included in the Final Technical Note.

**Answer: Not accepted.**

**Justification:** Considering that, in this OTR, the effect of the tariff calculation is not linear, as in the previous processes, for example, ARSESP understands that it is not necessary to indicate an adjustment percentage. This percentage would not represent the impact from tariff changes on users, but only as an average readjustment of current tariffs. Furthermore, the choice of the comparison base can significantly affect the percentage presented, which, in ARSESP's assessment, could create more questions than benefits to users.

It should be noted that the final Technical Note of the tariff structure will bring the expected percentages that impact different user categories and its context, reducing the possibility of misinterpretations.



- **SABESP**

**Contribution:** Considering that March is the base date for tariff indexing and the importance of maintaining the economic and financial balance and the compensatory adjustments to recompose the required revenue, we request the Agency to adopt one of the following solutions: i) postpone the tariff disclosure until April 12th, when they will be duly updated, without prejudice to being valid as of May 11th; or ii) issue an errata in the week following the publication on April 9th, with the amounts have been duly adjusted, without prejudice to being valid as of May 11th.

**Answer: Not accepted**

**Justification:** ARSESP will maintain the update for February 2021 prices, given this information is available in time to comply with regulatory deadlines, without introducing unnecessary uncertainties. The inflation for the month of March will be included in the 2022 annual tariff adjustment process.

**Contribution:** SABESP reiterates its request that ARSESP discloses, in the Final Technical Note, as accepted in a public consultation, the Tariff Adjustment Index on the same tariff structure basis that will be applied from April 2021, as well as the respective calculation details and current average tariff.

**Answer: Not accepted**

**Justification:** Considering that, in this OTR, the effect of the tariff calculation is not linear, as in the previous processes, for example, ARSESP understands that it is not necessary to indicate an adjustment percentage. This percentage would not represent the impact from tariff changes on users, but only as an average readjustment of current tariffs. Furthermore, the choice of the comparison base significantly affect the percentage



presented, which, in ARSESP's assessment, could create more questions than benefits to users.

It should be noted that the final Technical Note of the tariff structure will bring the expected percentages that impact different user categories and its context, reducing the possibility of misinterpretations.

**Contribution:** As SABESP is focused on the soundness of the company, serving its users and meeting its contractual commitments that have increasing investments in the cycle, it requests that ARSESP adjusts tariffs, bringing the average values of the first year as close as possible to the P0 that guarantees the company's economic and financial balance.

SABESP understands that the change in the tariff structure introduces a high level of uncertainty regarding the market and revenues and, as a result, it may be necessary to adopt control and adjustment mechanisms so that variations in revenue are offset.

No data or studies that support the ranges proposed by ARSESP were presented. Without prejudice to future comments or considerations on NT.F-0006-2021, given the preliminary proposal for deferring the application of the P0 presented in the respective technical note, SABESP proposes the following:

i) That there be no compensation calculation during the first year of the cycle (2021), or while the current tariff structure is maintained, regardless of the application of different percentages by the market segment. In this case, the average revenue range should be a 0% difference in relation to the P0 of the required revenue calculated in the economic-financial model, and the calculated amount should be capitalized by WACC for its compensation in the following year. This is due to the fact that, when the regulator indicates a balanced P0 but proposes its deferral, it excludes the company's opportunity to seek its economic-financial balance through the price-cap regulation.





ii) For the other years of the cycle, given the implementation of a new tariff structure, the range should have an adequate mechanism during the transition period and should be limited to ensure the economic and financial balance of the company and its users. Ranges of +10% or -10% create an oscillation of 20%. For these 3 years, the company proposes that the Agency uses annual ranges of +2.5% or -2.5%. This treatment should be valid for this tariff cycle given the uncertainties involved in changing the tariff structure.

**Answer: Not accepted.**

**Justification:** This contribution is not the object of this public consultation. However, it should be noted that issues related to the ranges were addressed in the public consultation held to review the tariff structure, and were adjusted.

As for the adjustment that brings the concessionaire closer to its required revenue, this principle is pursued by the Agency in the proposal for the transition of the tariff structure.

### 13. X FACTOR

- FNU / CUT

**Contribution:** Qualitative disallowances, of 8.5%, were compensated with the lack of the X Factor, in the amount of 9.5%. The treatment given is as if the Agency was making the company inefficient. We suggest to return the X Factor.

**Answer: Not accepted**

**Justification:** Qualitative disallowances aim to eliminate non-regulatory expenses from the calculation of unit costs. ARSESP eventually recognizes that, from these disallowances, there are reductions in operating cost projections, which partially meet some of the



principles of efficiency (as discussed in the separation of the effects of sector productivity gains and gains from the company's own productivity).

In turn, the X Factor was calculated according to Annex IV of the technical note, obtaining the amount presented. It should be noted that personnel expenses were not included in the X Factor application base, as it includes a specific efficiency assumption and this justifies its reduced amount in the model.

#### 14. TARIFF STRUCTURE

- **Claritas**

**Contribution:** Our analysis of NT.F-0006 indicated that the Agency intends to apply the readjustment derived from the 3rd OTR in smooth installments throughout the tariff cycle, with a real negative readjustment in the first year and larger readjustments in subsequent years. The proper procedure would be to apply the readjustment immediately in the tariff review and, from this new balanced tariff, initiate the tariff restructuring process.

**Answer: Not accepted.**

**Justification:** The revision of the tariff structure is not the object of this public consultation. This contribution was answered in the due public consultation process.

**Contribution:** Even if the Agency agrees with our suggestion above, which is to apply the 3rd OTR readjustment in full, the tariff cycle that is currently initiating has particularities that can lead to significant effects, positive or negative, on SABESP's economic and financial balance. Among these particularities include the regressive impact on the tariff mix due to the pandemic, the equalization of tariffs in the newly served municipalities and the uncertainties inherent to tariff restructuring. In this context, NT.F-0006 already provides for compensation if the required revenue is different than the actual revenue by 5%



in the first two years, 7.5% in the third and 10% in the fourth year. We consider a narrower range, of 2.5% over the 4 years, as a more suitable alternative, exceptionally in this tariff cycle, so it addresses these particularities and ensures the concession's economic and financial balance.

**Answer: Not accepted.**

**Justification:** The revision of the tariff structure is not the object of this public consultation. This contribution was answered in the due public consultation process.

**Contribution:** Once the access to the poorest population has been resolved, what needs to be understood is what will be the weight of water, collection and sewage treatment service costs on the family budget. For this, we refer to the 2018 POF family budget survey by the IBGE. As can be seen, water and sewage service fees have a very low weight in the budget of families in São Paulo and, therefore, should not be an obstacle in the debate regarding the pace of universalization of services.

**Answer: Not accepted.**

**Justification:** The revision of the tariff structure is not the object of this public consultation. This contribution was answered in the due public consultation process.

- **IDS**

**Questioning:** Considering that the “Todos juntos pelo Rio Pinheiro” project (pages 89-90 of SABESP's 2020 Business Plan) foresees an expenditure of R\$1.7 billion, representing a significant amount of the company's CAPEX and, considering this water source has its drainage area practically entirely in the territory of the municipality of São Paulo, how will this cost will be apportioned in SABESP's tariff structure, especially since different municipalities



make up its customer base? Will all users pay for this cost? If so, how will this be communicated to society?

**Answer:** The tariff review methodology adopted by ARSESP for SABESP, as approved in the Technical Note previously presented to the public consultation, provides for the overall balance of the services and not the calculation of average tariffs for different regions or municipalities. Note that this assumption is not directly linked to any other assumption adopted to elaborate the tariff structure. Evidently, if ARSESP changed its methodology to calculate local balances, there would necessarily be specific tariff structures for each region. However, even with an average tariff calculated for the overall balance, it would still be possible to adopt a structure with different tariffs for different regions. This topic will be analyzed in a public consultation specific for the tariff structure.

Specifically for this questioning, investments in projects in the Metropolitan Region are included in the overall balance. Just as are all investments for the countryside and coastal regions.

Specific issues about cross-subsidy between regions will be analyzed in a public consultation specific for the tariff structure. As for communication, ARSESP follows the appropriate public consultation and hearing processes.

- **SABESP**

**Contribution:** We request that ARSESP presents the estimated P0 value for each year of the 2021-2024 tariff cycle, if the proposal to scale each different categories prevails in the final version.

Additionally, we ask the Agency to provide details for its calculations so that the economic-financial balance of the tariff model is maintained for the proposed scaling, that is, there is an expected return of 8.10%, which is equivalent to the Regulatory WACC.



**Answer: Not accepted.**

**Justification:** This topic will be analyzed in a public consultation for the review of the tariff structure. However, it is worth noting that ARSESP sought a transition model that precisely allowed the service provider to obtain the required revenue in each year of the cycle, in such a way that the average P0 was exactly equal to the P0 calculated in the model. Exceptionally in this cycle, the adoption of an assessment on the required revenue in relation to the earned revenue aims to ensure that, if the service provider does not reach revenue in a given year or exceeds the estimated revenue, it will have the appropriate adjustment already in the following year. This treatment is due to the recognition that the proposed changes in the structure and transition rules can bring temporary imbalances.

The model used seeks to avoid such imbalances. But, if these imbalances occur, they will be compensated.

**Contribution:** For the assumption that the required revenue to be achieved and maintained, the costing models for determining the balanced average tariff must consider that it will be supported by the new tariff structure when it is applied. Although the following text is part of NT.F-0006-2021, we can not deny that one result affects the other.

The cash flows developed considered information from the years 2017 and 2018, provided by SABESP. As requested by ARSESP, they were prepared according to the model used in the 2nd OTR, that is, considering full cost for all services (retail and wholesale), based on the market per cubic meter billed (retail and wholesale) to determine the balanced tariff average.

When ARSESP adapted the information sent by SABESP, it replaced the billed volume with the measured volume for comparability with the model used in the 3rd OTR and, when making this adjustment, it did not consider the wholesale supply on a volumetric basis.



According to our assessment, this affects the results and the reference cost parameters that will be applied to determine the economic tariffs and application, consequently impairing the calculation of the required revenue.

We propose ARSESP to review the calculations of these parameters and their applicability to determine the economic tariff, including the possibility of using the model and the result of the overall balance for the 3rd OTR so that the required revenues are convergent.

**Answer: Not accepted**

**Justification:** This topic will be analyzed in a public consultation for the review of the tariff structure. It should be noted, however, that the use of volumes and connections is aimed at solely verifying if the proposed tariff structure is neutral, from the point of view of market composition. If the market mix used as reference is maintained throughout the cycle, the service provider should not have variations from the P0 calculated in the model.

Obviously, we expect there will be changes in the mix (such as what happened in 2020, with the increase in the consumption volume of residential categories as a result of the COVID-19 pandemic). These changes are part of the business risk.

By proposing a wide review of the tariff structure, ARSESP understands that important changes can occur, altering the revenue achieved by the concessionaire (and its average tariff) in a way that is beyond reasonable. Therefore, a regulatory mechanism for cap revenue was proposed for this cycle.

This mechanism will allow specific adjustments to be made throughout the cycle, ensuring the appropriate tariff structure can be fully applied, without transition steps, and using the price cap model as of the 4th OTR.



## 15. COMMUNICATION

- **IDS**

**Contribution:** We recommend that ARSESP improves the dynamics of its public hearings so that this space, with all the institutional requirements and formality, can effectively fulfill its purpose of promoting a broad and transparent discussion with society and interested parties. The questions and concerns presented by the participants should, whenever possible, be commented on and answered by the Agency during the actual public hearing sessions.

**Answer: Accepted**

**Justification:** Upon carrying out public hearings, ARSESP aims to increase the transparency of the entire regulatory process, allowing all segments of society to participate and contribute in the process.

Due to the pandemic, as of 2020 the Agency's public hearings were carried out in virtual format, allowing all parties committed to the proposed topics to participate. In this sense, ARSESP also began to broadcast these events on its YouTube channel so that a greater number of people may follow up on the Agency's actions.

Additionally, ARSESP also uses Public Consultations, tools that offer a longer deadline for interested parties to participate. All contributions and comments received are read by the Agency's board of directors and answered in a detailed report, published on its website.

Since the Agency is constantly concerned on the expansion and improvement of the participation tools it offers and the social control in its decisions, suggestions are always very welcome.



**Contribution:** We recommend that the official documents that guide ARSESP’s regulatory practice and establish guidelines for tariff review processes include core values for the advancement of universal basic sanitation, especially the recognition that access to drinking water and sewage are two fundamental human rights, directly related to human dignity, as well as the orientation of their actions in light of the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs), in particular SDG No. 6 which states the need to “Ensure the availability and sustainable management of water and sanitation for all”.

**Answer: Accepted**

**Justification:** Pursuant to NT.F 0043-2020, the regulatory principles adopted by ARSESP also align, within the limits established by legislation and public policy, with the objectives of the United Nations 2030 Agenda for Sustainable Development, especially Goal 6, which addresses the matter of ensuring the availability and sustainable management of water and sanitation for all people.

Whenever relevant, ARSESP includes these elements in its communication with the company, by means of Technical Notes, for example. This is a process that involves constant improvement and is aligned, for example, with the search for more accessible language to enable a more effective communication with society.





**Andre Luis Pinto Da Silva**  
Tariff Analysis Manager

**Fabio Andre Nakanishi**  
Specialist in Regulation and Inspection of Public Services

**Henrique Soares Pereira**  
Specialist in Regulation and Inspection of Public Services

**Edgar Antonio Perlotti**  
Superintendent of Economic-Financial and Market Analysis

**Luiz Antonio de Oliveira Junior**  
Head of Economic-Financial and Accounting Inspection

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