

RECOMMENDED PRINCIPLES FOR CALCULATING THE PRICE FOR WATER SERVICE

1. Foreword

This methodology “Recommended principles for calculating the price for water service” has been prepared by the Competition Authority (hereinafter referred to as the CA) on the basis of § 14 (9) of the version of the Public Water Supply and Sewerage Act that entered into force on 01.11.2010 (hereinafter referred to as the PWSSA).

When approving the prices, the last version, which is confirmed with the decree of the General Director, published on the website of the CA, shall serve as the basis.

In the preparation of the methodology, the recognised principles of price regulation applied in the energy sector (electricity, natural gas) of the European Union member states have been taken as the basis.

The methodology “Recommended principles for calculating the price for water service” shall be applied when approving the prices for public water supply and sewerage (PWSS) services in a similar and uniform manner when analysing the activity of all the water undertakings under the regulation of the CA and approving the prices thereof in order to avoid unequal treatment. This methodology can also be used by the local governments in approving the prices for PWSS services.

Provisions of § 14, 14¹ and 14² of the PWSSA have been taken into account when developing the methodology “Recommended principles for calculating the price for water service”.

Pursuant to § 14² (1) of the PWSSA, if the water undertaking’s service area is located on a wastewater collection area, the pollution load of which is 2000 population equivalent or more, the water undertaking shall submit the proposal for the price for water service (hereinafter referred to as the *price application*) with the price list for the services related to the main services and other documentation that serves as the basis for the price application to the CA for approval.

In case the water undertaking is providing the PWSS services on a wastewater collection area with a pollution load of both more or less than 2000 population equivalents, however, wishes to establish a common price for water service for these areas on the basis of the total costs, it shall submit the price application covering all wastewater collection areas also for the CA for approval (§ 14¹ (3) of the PWSSA). The remaining water undertakings shall approve their price for PWSS services with the local governments (§ 14¹ (2) of the PWSSA).

The following have been involved in the development of the methodology “Recommended principles for calculating the price for water service”: Ministry of Environment, Ministry of Economic Affairs and Communications, Environmental Investments Centre (KIK), Estonian Waterworks Association, larger water companies: AS Tallinna Vesi, AS Emajõe Veevärk, AS Pärnu Vesi, Narva Vesi AS, AS Tartu Veevärk, Estonian Cities’ Union, Association of Municipalities of Estonia, and the local governments of Tallinn, Tartu, Pärnu, Narva.

2. Definitions

2.1. Services subject to ex-ante regulation – prices for public water supply and sewerage services to be approved by the regulator.

2.2. Services related to the main activity of the undertaking that are subject to ex-post regulation – prices/ charges to be reviewed by the regulator, e.g. the connection charges.

2.3. Regulated activity – economic activity of the undertaking regarding which the regulator applies the regulation.

2.4. Other activity i.e. the non-core activity – fields of activity that are not directly related to the sale of public water supply and sewerage services (e.g. real estate developments, rent, construction, etc).

2.5. Investments into the fixed and current assets of the regulated activity – nonrecurring costs for acquiring and improving regulated assets from the funds of the water undertaking.

2.6. Weighted Average Cost of Capital (WACC) – the cost of total capital calculated on the basis of the capital structure (the ratio between own and external funds in the total capital) and the cost of debt and the cost of equity.

2.7. Capital expenditures (CAPEX) – the expenses related to the acquisition of assets, which are included in the prices for public water supply and sewerage services sold.

2.8. Rate of depreciation (capital expenditure rate) is the reciprocal of the time period that shows inclusion of the expenses incurred in the acquisition of assets in the prices of goods and services sold to consumers. The rate of depreciations is determined by the useful life of equipment.

2.9. Stranded assets; stranded cost are the assets and cost related to investments or non-monetary payments made into the company that cannot be used or are not economically reasonable to use in the provision of public water supply and sewerage services due to a changed economic situation (environmental standards becoming stricter, water consumption reducing, technical terms changing, etc).

2.10. Justified return – justified return (operating profit) is calculated as the product of the value of regulated asset base and the allowed rate of return (the WACC).

2.11. Regulator – CA or local government, who proceed from this methodology in the calculation of the price.

2.12. Regulation period – 12-month period, the costs and justified return of which serve as the basis for calculating the prices.

2.13. Regulatory asset base (RAB) – assets and working capital used in the regulatory activity, acquired from the own funds of the undertaking.

2.14. Return on regulated assets or justified rate of return – an allowed rate of return on regulated assets i.e. return on regulated assets. The allowed rate of return of an undertaking may not be higher than the weighted average cost of the undertaking's capital (the WACC).

2.15. Operating expenses (excl. capital expenditure, environmental charges in the part regarding the rates of environmental taxes, cost for the service purchased from other water undertakings) – costs that can be affected by an undertaking through more efficient economic activity (e.g. rental cost, labour cost, training cost and others).

3. Objectives and general principles of the economic regulation of the activities of undertakings dealing with the sale of PWSS services

3.1. Market regulation shapes the prices of products and services on the basis of demand and supply and the main conditions for trade relations between market participants in all economic sectors lacking monopolies. The open market model does not apply to infrastructure sector services as the latter are governed by natural monopolies. Therefore, state regulation of the prices of services provided by infrastructure companies is necessary and should replace the open market pricing mechanism. This is necessary regardless of the fact that, in the 90s of the last century, the tendency affecting the infrastructure sectors in countries with advanced market economies was deregulation, which has contributed to the growth of competition in this field, including the energy sector.

3.2. The activities of infrastructure companies (energy, rail and public transport, communications and water economy undertakings) have an important impact on the whole society and economy and, therefore, every country is interested in applying regulatory measures that facilitate economic growth and competitiveness and protect customers against the arbitrary action of monopolies. The Estonian legislation regulating the activities of infrastructure companies (the Energy Market Act, the Natural Gas Act, the District Heating Act, the Telecommunications Act, the Public Water Supply and Sewerage Act, etc.) provides the general principles for pricing the services of the sector, but such principles alone are not sufficient.

3.3. Regulation of the activities of companies means approval and review of prices for PWSS services developed by undertakings. PWSS Act sets out principles that identify the rights, obligations and competence of the regulator. The current methodology has also developed based on that.

3.4. In developing this methodology, the principles known as methods of revenue cap or price cap regulation methods have been applied.

4. Differentiation of expenses

4.1. A regulated company shall keep separate accounts for the expenses incurred in the sale of different goods and services.

4.2. In the differentiation of expenses the provider of PWSS services shall proceed from the provisions of § 7² of the PWSSA, section 1 of which requires keeping separate accounting on the costs as follows:

- 1) Water supply;
- 2) Conducting and treatment of wastewater;
- 3) Conducting of storm water, drainage water and other soil and surface water;
- 4) Additional services related the activities named in clauses 1-3 of this subsection;
- 5) Connection changes for connecting with the public water supply and sewerage;
- 6) Other activities.

4.3. § 7² (2) of the PWSSA sets out that assets purchased with grant aid need to be separately brought out with the costs named in clauses 1-4 of subsection 1 of § 7² of the PWSSA.

4.4. In case a customer or another water undertaking is provided with services on the territory of several local governments, water undertaking is required to keep separate accounting by different local governments in line with what is stipulated in § 7² (1) of the PWSSA, except in cases, where the local governments have agreed otherwise (§ 7² (3) of the PWSSA).

4.5. During the approval of the prices the regulator shall review that the expenses are differentiated based on justified principle and in the analysis of the expenses shall provide an opinion regarding the division thereof.

5. Sales volumes, operating costs to be included in the prices, the analysis and justification thereof

5.1. During the approval of the prices the regulator shall analyse the sales forecasts that are submitted by the undertaking and that serve as a basis for the PWSS formation. In the analysis of the sales forecasts the following methods shall be used:

- Change in the sales forecast (incl. changes in the economy forecasts, water consumption and other indicators forecasted in the long-term development plan shall be taken into account);
- Comparison of the sales volumes of the previous period;
- Dynamics and forecast of the number of consumers.

5.2. When calculating the PWSS service sales volumes, the regulator shall proceed from the assumption that all consumers consume the PWSS for 12 months. Making this assumption is necessary in order to maintain the balance between the costs and consumption that serve as the basis for calculating the price for PWSS service. As the costs, incl. the investments, correspond to 12 months, then the customers' consumption volume must also correspond to the consumption volume of 12 months, or else the price would be formed on an unjustified bases.

5.3. Costs incurred by the undertaking are divided in their nature into controllable and uncontrollable.

5.4. Controllable costs are these that the undertaking may influence through a more efficient economic activity. *E.g. water loss in providing the PWSS services, as the undertaking may control this cost item through investments and more efficient economic activity. Also labour costs, etc.*

5.5. Uncontrollable costs cannot be influenced through the economic activity of the undertaking, but are entirely subject to external factors. Uncontrollable costs are for example:

- *Fees for PWSS service paid to other provider of PWSS services (in case these have been approved pursuant to § 14¹ (2) of the PWSSA);*
- *Rates for environmental taxes set out in the law;*
- *Other duties and obligations resulting from the law.*

5.6. A principle of complete reflection in prices for PWSS services shall be applied for uncontrollable cost. *E.g.: rates set out in the law shall be taken as the basis for calculating the costs, however, the undertaking must justify the pollution volumes.*

5.7. In approving and reviewing the prices for PWSS services, the regulator **shall not accept** the following cost items:

- 5.7.1. Costs for bad debts;

- 5.7.2. Sponsorship, gifts and donations;
- 5.7.3. Costs related to other activity;
- 5.7.4. Change in the value of assets (change in the balances of assets, allowance for non-current assets, reduction in the value of assets, depreciation from the sale and liquidation of tangible and intangible non-current assets, etc.);
- 5.7.5. Penalties and fines for delay imposed to the undertaking by legislation;
- 5.7.6. Costs that proved to be unjustified during the economic analysis of the activity of the undertaking.

5.8. Regulator shall analyse the division of expenses between the various products and services sold by the undertaking and shall monitor that the products and services sold would not include a cross-subsidization of the fields of activity.

5.9. Regulator shall systematically perform an analysis of the undertaking's expenses, using the following methods:

- 5.9.1. Observing the dynamics of costs in time and the comparison thereof with the dynamics of the CPI;
- 5.9.2. In-depth analysis of the justifiability of various cost components (incl. expert opinions);
- 5.9.3. Comparison of the operating costs of the undertaking and the statistical indicators calculated on the basis thereof with the indicators of other undertakings, so-called *benchmarking*;
- 5.9.4. Capital expenditures analysis;
- 5.9.5. Analysis of investments;
- 5.9.6. Purchasing the service from a comparable, analogous service provider, incl. service provides functioning in open market conditions.

5.10. In case subsidy has been received from national or European Union funds for the development of the PWSS, the liabilities assumed for receiving the non-returnable aid shall be taken into account in approving the prices for water services (§ 14 (10) of the PWSSA).

6. Capital expenditure

6.1. Capital expenditure is the expenses related to the acquisition of assets, which are included in the prices for PWSS services. The aim of the capital expenditure is to recover the expenses made for the acquisition of assets through the price for the PWSS service during the useful life of the assets.

6.2. As a rule, capital expenditure is the depreciation reflected in the accounting of the undertaking that has been differentiated by the services provided. If as a result of the analysis by the regulator it turns out that the depreciation rates for assets do not comply with the actual life of the assets, then the regulator shall apply the method for calculating capital expenditure described in subsections 6.3 to 6.14 in this methodology.

6.3. Calculation of capital expenditure shall proceed pursuant to the following clauses of this methodology, in which the assets are divided into old (assets acquired before the margin year) assets and new (assets acquired since the margin year) assets.

6.4. In the calculation of capital expenditure the linear capital expenditure calculation method is applied.

6.5. Regulator shall establish a margin year, from which the capital expenditure shall be calculated.

6.6. In the calculation of capital expenditure, separate accounts shall be kept for the assets acquired before and after the margin year, and also a separate account of the capital expenditure shall be kept.

6.7. Capital expenditure on assets acquired before the margin year shall be reported at its residual value. Thereby capital expenditure rate(s) (pursuant to the residual service life) shall be established for assets acquired before the margin year, based on which the calculation of capital expenditures to be included in the prices shall take place. In case significant changes occur, the cost of assets acquired before the margin year and the capital expenditure rate may be changed.

6.8. Capital expenditure on assets acquired since the margin year shall be reported at its acquisition value. The annual average acquisition cost is regarded as the acquisition cost of the current year.

Thereby capital expenditure rate(s) shall be established for assets acquired since the margin year, based on which the calculation of capital expenditures to be included in the prices shall take place¹.

6.9. If necessary, the differentiation of assets may be used, by using different capital expenditure rates.

6.10. The regulator has the right to make adjustments to the cost of assets and capital expenditure rates in case it becomes evident that the assets acquired either before or after the margin year include assets that the undertaking is not actually employing for carrying out its economic activity or in case it becomes evident that the capital expenditure rates are not justified.

6.11. Capital expenditure to be included in the prices is calculated in the following way:

$$A_{prices} = A_{before\ m.y} + A_{after\ m.y}$$

Formula 1

A_{prices} – capital expenditure to be included to the prices;

$A_{before\ m.y}$ – capital expenditure on assets acquired before the margin year;

$A_{after\ m.y}$ – capital expenditure on assets acquired after the margin year.

6.12. Capital expenditure acquired before the margin year is calculated as follows:

$$A_{before\ m.y} = N-CA_{residual} v_{before\ m.y} \times rate_{before\ m.y}$$

Formula 2

$N-CA_{residual} v_{before\ m.y}$ – assets at residual value acquired before margin year;

$rate_{before\ m.y}$ – capital expenditure rate established for assets acquired before margin year.

6.13. Capital expenditure acquired after the margin year is calculated as follows:

$$A_{after\ m.y} = (N-CA_{acquisition} c_{after\ m.y} + 0,5 \times I) \times rate_{after\ m.y}$$

Formula 3

$NCA_{residual} v_{after\ m.y}$ – assets at acquisition cost acquired after margin year;

I – investments made during the regulation period;

$Rate_{after\ m.y}$ – capital expenditure rate established for assets acquired after margin year.

6.14. Example: Calculation of capital expenditure

- The company's financial year begins on 1 January. Margin year is set on 2010.
- As at the beginning of the financial year 2010, the residual value of the undertaking's regulated assets is 200 million EEK; $N-CA_{residual} v_{before\ 2010} = 200$ million EEK;
- A capital expenditure rate of 5% is established for the assets acquired before the financial year 2010; $norm_{before\ 2010} = 0,05$
- During the financial years 2010 and 2011, investments are made to the scale of 10 million EEK; as at 1 January 2010 $N-CA_{acquisition} c_{after\ 2010} = 10$ million EEN and as at 1 January 2011 $N-CA_{acquisition} c_{after\ 2010} = 20$ million EEK.
- A capital expenditure rate of 4% is established for the assets acquired after the financial year 2010; $rate_{after\ 2010} = 0,04$

Table 1. Example of the calculation of capital expenditure and assets in an excel table.

	2010	2011
Cost of assets at the beginning of the year (th'EEK)	200 000	199 800
Cost of old assets (th'EEK)	200 000	200 000
Capital expenditure rate of old assets %	5	5
Capital expenditure of old assets (th'EEK)	10 000	10 000
Investments (th'EEK)	10 000	10 000
Capital expenditure rate of new assets %	4,00	4,00
Capital expenditure of new assets (tuh.kr)	200	600
Total regulative capital expenditure (th'EEK)	10 200	10 600
Cost of assets at the end of the year (th'EEK)	199 800	199 200

¹ Pursuant to the useful life of assets included in clause 10 in Annex 2 of the Minister of Environment Regulation No 34 of 01.07.2009 "Guidelines for preparing the feasibility study, the financial and economic analysis and provisional assessment of environmental impacts for the project in case the project's co-financing application is submitted to the Cohesion Fund of the European Union "

7. Regulatory Asset Base

7.1 Regulatory asset base (RAB) stands for the assets and working capital used in the regulatory activity, acquired from the own funds of the undertaking.

7.2 It is necessary to determine the regulatory asset:

- For calculating the capital expenditure (depreciation of asset) to be included in the operating costs of the undertaking;
- For calculating the justified return, because when regulating the activities of an undertaking, RAB is equalled with the capital invested into the undertaking.

7.3 The RAB of a regulation period is calculated as follows:

$$\mathbf{RAB = (RAB_0 + RAB_1)/2 + WC,}$$

Where

Formula 4

RAB – Regulated asset base;

RAB₀ – value of RAB in the beginning of a regulation period;

RAB₁ – value of RAB in the end of a regulation period;

WC – working capital.

7.4 For calculating the working capital, regulator takes 5% of the net external turnover of an undertaking as a basis.

7.5 The internal turnover of companies belonging to a vertically integrated group is not included in the calculation of working capital.

7.6 The value of RAB in the end of a regulation period is calculated as follows:

$$\mathbf{RAB_1 = RAB_0 + I - A - M,}$$

Where

Formula 5

RAB₀ - value of the RAB in the beginning of regulation period;

RAB₁ – value of the RAB in the end of regulation period;

I – investments made by an undertaking into RAB during a regulation period;

A – capital expenditure;

M – assets sold or written off during a regulation period.

7.7 The calculation of assets is usually based on the residual book value of the assets invested by the owner. If it appears that the book value of assets is not justified and does not correspond to the actual value of the assets, the regulator has the right to correct the asset value.

7.8 RAB shall not include: the assets that are used in non-core activities; long-term financial investments; intangible assets (except for computer software and programme licences) and assets acquired from connection charges paid by consumers.

7.9 RAB calculation shall not include the assets acquired with grant aid (e.g. EU aid programmes or state aid), i.e. justified return is not earned from the named assets.

7.10 Unfinished constructions shall be added to the RAB after they have been taken into use.

7.11 Connection charges paid to the other providers of public water supply and sewerage services are included in the calculation of RAB as investments.

7.12 During the process of reviewing the economic activities' analysis of the undertaking and price approval applications, the regulator shall analyse the investments planned into the RAB. Unjustified investments shall not be included in the RAB.

7.13 *Example: RAB calculation*

If the residual value of the undertaking's assets in the financial year of 2010 amount to 4000EEK and its net turnover to 1000EEK. Working capital is 5% of the external turnover of the regulatory services provided in the financial year. Capital expenditure is calculated in line with the clauses 6.3-6.14.

Table 2. Example of the calculation of RAB in an excel format.

	2010	2011	2012
Net turnover (th EEK)	1000	1010	1020
Residual value of assets in the beginning of the year (th EEK)	4000	3795	3590
Cost of old assets (th EEK)	4000	4000	4000
Depreciation rate of old fixed assets (%)	10	10	10
Capital expenditure on old fixed assets (th EEK)	400	400	400
Investments (th EEK)	200	210	250
Depreciation rate of new fixed assets (%)	5,0	5,0	5,0
Capital expenditure on new fixed assets (th EEK)	5	15	27
Regulatory depreciation (th EEK)	405	415	427
Residual value of assets in the end of the year (th EEK)	3795	3590	3413
Working capital	50	51	51
Regulatory assets (th EEK)	3948	3743	3552
WACC (%)	7,8	7,8	7,8
Justified return	308	292	177

7.14 One of the grounds for approving the tariffs is the investment programme carried out by the undertaking, serving as the basis for calculating the capital expenditure and justified return (operating profit). Regulator shall check whether the delivery of investments is in line with the programme.

7.15 If the total cost of investments made in the regulation period is less than the investment programme planned in the calculation of RAB, only the investments that have been actually made shall be included in the calculation of RAB in the following period.

7.16 The calculation of RAB is consistent and continues in all further regulation periods and also in case the undertaking or the ownership of assets changes.

7.17 The value of RAB may be corrected, if it appears that it includes the assets that are not actually used by the undertaking in its business operations (so-called stranded assets) or if the value of RAB does not correspond to the actual value.

8. Calculation of justified return

8.1 Determining the justified return (operating profit) is done on the same basis as for the undertakings in both, state or private ownership.

8.2 Justified return is calculated based on the allowed rate of return on regulated assets.

8.3 Justified return is calculated by multiplying RAB with the allowed rate of return, which has been deduced following the criterion for determining the return on regulatory assets. Justified return is calculated based on the following formula:

$$\mathbf{JR = r_{allowed} \times RAB,}$$

Where

Formula 6

JR - Justified return (allowed operating profit);
 r_{allowed} - allowed rate of return (WACC);
RAB - Regulatory asset base

8.4 Rate of return allowed by the regulator equals with WACC:

$$r_{\text{allowed}} = \text{WACC},$$

Where

Formula 7

WACC – weighted average cost of capital

8.5 WACC is calculated based on the following formula:

$$\text{WACC} = c_{\text{equity}} \times \left(\frac{E}{D + E} \right) + c_{\text{debt}} \times \left(\frac{D}{D + E} \right)$$

Where

Formula 8

C_{equity} - cost of equity
 C_{debt} - cost of debt
D - proportion of debt
E - proportion of equity

8.6 Determination of the WACC is down to the following activities:

- Determining the capital structure in regulation period;
- Determining the cost of debt;
- Determining the cost of equity.

8.7 The components D/C_{total} and E/C_{total} reflect the capital structure i.e. the debt-equity ratio to the total capital, if the total capital equals ($C_{\text{total}} = D + E$).

8.8 The calculation of the capital structure of WACC is not based on the undertaking's book data. In the conditions of market regulation, the regulator may intervene in the financing decisions of undertakings and dictate a certain capital structure or calculate the prices of services with a certain capital structure, which may differ from the actual capital structure² of the undertaking. Due to that the regulator uses a capital structure of 50% debt and 50% equity in the calculation of WACC.

8.9 When determining the cost of debt, the interest levels of a long-term periodic money market (the average of 5 last years of German 10 year bonds), country risk and company risk are taken as the basis. In case state bonds exist, the cost of debt may be determined on the basis of the interest rate of a state bond.

8.10 The cost of equity is calculated according to the CAPM model as follows:

$$C_{\text{equity}} = R_f + \beta \times R_m,$$

Where

Formula 9

C_{equity} - cost of equity
 R_f - risk-free rate of return
 β - beta coefficient
 R_m - market risk premium

8.11 Risk-free rate of return is regarded as the 5-year average interest rate of a bond of the euro zone (German 10-year bonds), to which the country risk premium is added. In case state bonds exist, the interest rate of state bonds may be regarded as the risk-free rate of return.

8.12 Beta coefficient is determined on the basis of similar indicators of European and US companies.

8.13 The market risk premium is determined on the basis of European and US long-term market risk premiums.

9. Calculation of the allowed sales revenue and prices of public water supply and sewerage services

9.1 The allowed sales revenue serves as the basis for the calculation of the prices of public water supply and sewerage services. The allowed sales revenue (R_{allowed}) is the sales revenue of public water supply and sewerage services in the regulation period.

9.2 The following costs shall be included in the prices of public water supply and sewerage services:

- Costs of public water supply and sewerage services, if the services are bought from the other providers of public water supply and sewerage services (service from the another water company must be bought for approved prices in line with the PWSSA Art. 14¹ (2));
- Uncontrollable expenses;
- Operating expenses;
- Capital expenditure;
- Justified return.

9.3 Hence the allowed sales revenue is calculated as follows:

$$R_{\text{allowed}} = \text{WS} + \text{UCE} + \text{OE} + \text{CE} + \text{JR},$$

Where

Formula 10

R_{allowed} - allowed sales revenue;

WS - service bought from another water company in line with the PWSSA Art. 14¹ (2);

UCE - Uncontrollable expenses;

OE - Operating expenses;

CE - Capital expenditure;

IR - Justified return.

9.4 The allowed sales revenue is calculated on the basis of summing up the multiplication of the prices of the public water supply and sewerage services sold and the sales quantities thereof in line with the following formula:

$$R_{\text{allowed}} = \sum \text{price}_n \times \text{sale}_n$$

Where

Formula 11

price_n - specific price of a service;

sale_n - the volume of public water supply and sewerage services sold with the specific price.

9.5 The allowed sales revenue serves as the basis for calculating the price of respective public water supply and sewerage services as follows:

$$\text{price}_n = \frac{R_{\text{allowed}}}{m_n} \left[\text{e. g. } \frac{\text{kr}}{\text{m}^3}; \frac{\text{kr}}{\text{month}} \right]$$

Where

Formula 12

R_{allowed} - allowed sales revenue of the respective service during the regulation period;

m_n - sales of the respective public water supply and sewerage service during the regulation period;
 $price_n$ - price of the respective public water supply and sewerage service during the regulation period.

9.6 An example of calculating the allowed sales revenue in an excel format:

The table below indicates the costs that serve as the basis for calculating the allowed sales revenue and prices of the respective services.

Table 3. An example of calculating the allowed sales revenue in an excel format.

		Total allowed sales revenue	Charge for water supplied	Charge for leading off and treating wastewater
Expenses on buying services from other water companies	kr	1,000,000	350,000	650,000
Uncontrollable expenses	kr	20,000	5000	15,000
Operating expenses	kr	1,000,000	400,000	600,000
Capital expenditure	kr	200,000	75,000	125,000
Justified return	kr	250,000	100,000	150,000
Allowed sales revenue	kr	2,470,000	930,000	1,540,000
Sales volume	m ³		80,000	80,000
Charge for services	Kr/ m ³		11.6	19.3