

ABSTRACT

The Determination of Optimal Pricing for
the Water Sector in Trinidad and Tobago
in the 1990s and Beyond

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This study seeks to examine some key policy issues pertinent to the water sector of Trinidad and Tobago namely, ownership structure and efficiency, and institutional and regulatory structures as they relate to pricing policy.

Several constraints are identified as lying in the path of WASA's successful privatisation; these included political, structural and implementational constraints. The study suggests that the Management Lease Option can best ease these constraints. It is shown that efficiency is more a factor of market structure than of ownership structure and thus the question of market regulation or rather deregulation assumes great importance.

There are essentially two concerns of regulation. Firstly, the implementation of appropriate institutional structure and secondly, the application of proper regulatory mechanisms. With respect to the former, the two options

available to Trinidad and Tobago are, regulation via a government ministry and regulation through a separate independent body. The second option has been successfully adopted in Britain which has taken the lead in the institution of deregulation policies in the utility sector.

A review of the literature is undertaken to establish the theoretical relationships between the concepts of welfare, efficiency, and pricing. The major part of this review focuses on establishing the superiority of marginal cost as the first best efficient price.

Having determined that the water industry of Trinidad and Tobago is a declining cost industry and having also estimated marginal cost and aggregate gross market demand, the optimal price/quantity for 1994 are established as \$1.30 per cubic metre and 222 million cubic metres at 40 percent UFW and 266 million cubic metres at 50 percent UFW respectively. However, the study reveals that before this pricing policy can be adopted the large scale metering of water connections must be undertaken.