

2 Summary of the kick-off meeting

A kick-off meeting was convened, to inform stakeholders about the dialogue, its ambition and the working method. The agenda was designed to build a momentum and appetite for next steps.

2.1. General Overview

The Ministry of the Environment of Lithuania, jointly with other governmental authorities and stakeholders, the European Commission DG Reform, and the OECD are partnering to enhance the sustainability of water supply and sanitation services in Lithuania.

The kick-off meeting was co-convened by Lithuanian authorities and the OECD Secretariat, on 18 February 2021, as a virtual meeting. The aim was to discuss the findings of the background report (Chapter 1) and the priorities for the remainder of the project. It was structured around four Agenda items (see Annex A).

The meeting was chaired by Mr Vitalijus Auglys from the Ministry of Environment of Lithuania. It gathered more than 150 delegates from national and local authorities, water utilities, the Lithuanian water utility association, and international participants from the EC (DG Reform) and the OECD Secretariat (see Annex B for List of Participants).

This note captures the main messages of the meeting on the state of play of the water supply and sanitation (WSS) sector reform, OECD analysis and official and expert opinions expressed at the meeting.

2.2. Agenda Item 1: Opening and Welcoming Remarks

Mr. Darius Kvedaravičius, vice Minister of Environment of Lithuania, welcomed participants. He provided a brief overview of the most recent experience with the water policy reform in Lithuania and emphasised the importance of WSS consolidation as one of the mechanisms to enhance sustainability of the sector. The approach still needs to be tested in pilot regions to explore potential benefits of consolidation. Such an analysis will facilitate the policy discussion in the coming months.

Mr. Kaspar Richter, Head of Unit, DG Reform, welcomed participants of the meeting. Mr Richter underlined the value of cooperation programmes in different environment related areas and mentioned other ongoing DG Reform initiatives for Lithuania on climate neutrality and digitalisation.

2.3. Agenda Item 2: The state of play in the WSS sector of Lithuania

Mr. Xavier Leflaive, OECD, presented the project purpose, the importance of and mechanisms for collaboration with national experts and stakeholders in the course of project implementation, and key project milestones and timeline.

Ms. Indrė Musvicienė, State Energy Regulatory Council, shared the experience with application of the WSS tariff methodology and the accompanying approval procedure. The presentation highlighted the role of utility performance monitoring and mid-term investment planning to encourage optimal technical solutions.

Ms. Agnė Kniežaitė-Gofmanė, Ministry of Environment, shared the vision for the sector development, including aspects related to:

- compliance with the EU legislation in long term
- tariff policy and related affordability concerns
- the role of licencing and monitoring of utility performance
- stepwise voluntary consolidation of WSS service provision.

Mr. Bronius Miežutavičius, Water Utility Association, signalled the need to reflect proper amortisation costs in the tariff formula, taking into consideration that the purchasing power in Lithuania is low. Mr.

Miežutavičius suggested that the difference in water prices across the country (from 2.2 EUR/m³ to 4 EUR/m³) called for further strengthening of tariff regulation to enhance cost-efficiency.

Mr. Ričardas Leckas, UAB Elektrėnų komunalinis ūkis, commented on the need to strengthen costs management of utilities. It is topical to support the sector modernisation. Also in the context of the requirements to introduce new wastewater treatment technologies, there might be a need to consider stepwise approach to minimise the risk of environmental taxes in case of non-compliance.

A representative from the Kauno rajono savivaldybės administracija signalled that consolidation is a complex issue, which requires a careful analysis of every cost item, to make sure the expected benefits materialise.

2.4. Agenda Item 3: Towards sustainable WSS in Lithuania: policy issues

Ms. Tatiana Efimova, OECD, shared the key findings of the Background report. The presentation is appended.

The discussion highlighted:

- A massive investment programme implemented to comply with the EU Water Directives in Lithuania. However, financing challenges remain, associated with further needs to build new or rebuild existing assets
- Performance monitoring is critical to evaluate sector policies and programmes. Performance is not systematically benchmarked across utilities in Lithuania, though some elements are in place, in relation to licensing and tariff regulation
- The cost of replacing decaying assets is not properly reflected in the tariff-setting process. Most utilities are unable to generate the revenues to renew and upgrade existing infrastructure financed by EU funds
- Ms. Indrė Musvicienė, State Energy Regulatory Council, confirmed the need to develop an optimal methodology to calculate depreciation. Along the same line, Mr. Bronius Miežutavičius, Water Utility Association, confirmed that the prevailing methodology for WSS tariff setting does not provide revenues for the modernisation and maintenance of existing assets, affecting the financial sustainability of water companies.

Issues related to incentives for consolidation of service providers were discussed. Representative of regional operators confirmed the benefits of consolidation for rural areas to secure WSS service. Local authorities recognised the need to systematically explore opportunities for inter-municipal cooperation but noted a general lack of trust, which prevents a bigger cooperation.

Participants took note and endorsed the suggestions for further work under the project:

- a) *Zoom-in on the issues* affecting sustainability of WSS services in Lithuania
- b) *Address practical issues to expedite consolidation, using an example of 1-2 pilot regions*
- c) *Advance the role for the economic regulator for WSS:* i) set and enforce performance targets; ii) assess the opportunity and efficiency of expenditure programmes; and iii) set tariffs as policy instruments to reap economies of scale, drive investment and performance.

2.5. Agenda Item 4: Next steps and priorities for the coming period

Mr. Darius Kvedaravičius, vice Minister of Environment of Lithuania, summarised the priorities for the next steps, including assessment of potential risks associated with consolidation, and possible solutions. He

also stressed the need to work towards a bigger trust and cooperation between municipalities to ensure effective service provision. Mr. Kvedaravičius expressed the hope that the following project activities will help to identify the steps to accelerate WSS consolidation and develop necessary policy recommendations.

Mr. Vitalijus Auglys, the Ministry of Environment, thanked participants for their participation, and closed the meeting.

Annex 2.A. Agenda

Kick-off Meeting

Thursday 18 February 2021 (14:00h-16:30h, Vilnius time) via ZOOM

The meeting will be chaired by Vitalijus Auglys, Ministry of Environment of Lithuania

14:00 ~ 14:15

Item 1. Welcome and Adoption of the Agenda

- Welcome by the vice Minister of Environment of Lithuania (Mr Darius Kvedaravičius)
 - Welcome by DG REFORM (Mr. Kaspar RICHTER, Head of Unit, DG REFORM)
 - Adoption of the Agenda
-

14:15 ~ 14:45

Item 2. The state of play in the WSS sector of Lithuania (led by the Ministry of Environment)

- Brief overview of the project (OECD)
- Brief overview of the WSS sector performance in Lithuania (State Energy Regulatory Council)
- Consolidation strategy of the WSS sector of Lithuania. (Agnė Kniežaitė-Gofmanė, Ministry of Environment of Lithuania)

Short interventions from representatives of municipal authorities and regional WSS operators.

Questions for clarification

14:45 ~ 16:15

Item 3. Towards sustainable WSS in Lithuania. Policy issues (led by OECD)

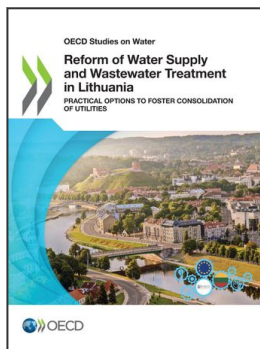
- Focused discussions on selected policy issues
 - Financial sustainability of utilities (financing needs and capacities, now and in the future; potential sources of finance)
 - Cost-effectiveness and performance of the sector (now and in the future)
 - Social issues (access; affordability of water bills)
- Options to expedite agglomeration of water utilities
- Selection a pilot region(s): ambition, criteria for selection. Short interventions of municipalities expressed the interest.
- Suggestions on further work under the project: milestones and key outputs

Discussion

16 :15 ~ 16:30

Item 4. Next steps and priorities for the coming period

Conclusions and a wrap up of the meeting



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