

# **METHODOLOGICAL APPROACHES TO PRICE SETTING FOR THE SERVICES OF COMMUNAL ENTERPRISES BASED ON CONSERVATION OF THE RESOURCES**

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Innovative progress of Ukraine's economy predetermines necessity of solving problematic issues in many fields, but communal sphere is one of the priorities. The level of everyone's life depends mainly on the quality of services provided by communal enterprises as well as the rates established by them. Now the quality of practically all utilities remains at the low level and does not meet the established standards. While the rate of tariffs is gradually increasing.

The explanation lies in the fact that almost all native communal enterprises, inherited by Ukraine from the Soviet Union period, were created basing on another scale marketing services, other strategies of technical upgrading, financial support from the government and others.

The current complicated financial and economic situation in Ukraine makes it impossible for companies of communal sector to be modernized and reconstructed. As a result, most of them are unprofitable. In turn, this leads to a significant loss of natural resources due to the obsolescence of fixed assets of such enterprises.

On the initiative of the National Commission, which performs state regulation of utilities for Communal Enterprises, the stimulatory tariff setting for services by the RAB-method (Regulatory Asset Base) is suggested for the communal enterprises. It provides the establishment of long-term utility tariffs (3-5 years) for services of heat energy distribution, water supply and sewerage. This will encourage enterprises of the communal branch to choose a reasonable approach to the extraction and transportation of natural resources and therefore services associated with them to consume energy and generate income from invested capital.

The valid approach "*Costs + Return*" does not stimulate enterprises to invest in energy conservation, because the higher the costs are, the higher the profitability level is. Accordingly, the companies are lacking any incentives to reduce the proportion of operating expenses. No competition is available in monopolies, so the manufacturer does not need to reduce costs (in any case the product or service will be purchased by consumers).

So, if the traditional model of "*Cost +*" is represented by the expression: "*Cost + Profit (interest cost) = Price of services*", the new method puts slightly different emphasis: "*The price - Profit (requirements regarding the level of return on capital) = Cost (production by destination cost)*". The current method of "*Cost +*" enables communal enterprises to take the tariff plan operating expenses, depreciation and fixed rate of return into account, but RAB-method converts the

last component of this formula into the level of return on capital. This income is determined by two components: regulatory frameworks and regulatory rate of profitability.

In the suggested tariff model the future benefits for the consumer are incorporated. It is implemented as a task for utility companies to reduce costs. The National Commission, which performs state regulation of utilities, will create the conditions that will encourage producers to look for opportunities to reduce costs. This will give the state an opportunity to establish an economically reasonable cost of utilities and stop subsidization of utilities by compensation tariff difference.

The table below shows the impact of features of stimulating tariff setting on different categories of participants in the communal sector.

Table 1 - The effect of implementation of stimulating tariff setting on different categories of communal sector

Participants	Features of the impact
Companies	Obtaining incentive to reduce costs; opening of prospects for attracting significant investment into modernization of fixed assets
Investors	Reducing the risks of investing into assets enterprises of the communal branch; guaranteed rate of return on invested capital will allow to return your money and get a profit
Consumers	Residential customers will be guaranteed of uninterrupted and qualitative supply of water and heat; the reduction of payments for accession to the networks is possible in the future

The stimulatory regulation of tariff setting will promote communal enterprises to return income on invested capital, the investment in its measures to reduce energy consumption (saved money will remain at the disposal of enterprises). Within such a tariff model approach it is practically impossible to provide services for unreasonable rates.

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