



The Department of Energy (DoE) is responsible for the planning and directing Abu Dhabi's energy, water and wastewater sector. Our role includes enacting policies and regulations and developing strategies to ensure an effective energy transition that underpins Abu Dhabi's sustainable growth, all while protecting our consumers and minimizing negative impact on our environment.

We recognize that economic growth and social development are intrinsically linked to energy and water production, supply and consumption. The energy transition to a low carbon-based economy has implications for businesses, policy development and consumer behavior. Therefore, we made it our purpose to engage all our stakeholders, empower our industry partners and support our community by acting as an enabler of sustainable growth that creates value for business and society.

One of the ways in which we do this is by regulating and ensuring that the energy, water and wastewater sector is efficient. The DoE, as the regulator, leads the price controls (often referred to as revenue controls) for the operating network companies in Abu Dhabi. This fact sheet outlines why price controls are needed, how they work and what it means for the customers within Abu Dhabi.

What is a Price Control?

Price controls are a tool to set out the amount of revenue that can be earned over a period of time by the network companies – the companies running the large infrastructure businesses that enable providing electricity and water to end users.

The Abu Dhabi Department of Energy ('DoE') is undertaking the periodic review of price controls for electricity and water companies operating in the Emirate of Abu Dhabi to set the revenue that the electricity and water network companies are allowed to earn as required by Law #2 (1998) and Law #11 (2018). The next price control will take effect by 2023 and will operate for the period 2023 to 2026. By end of the review, DoE and the sector companies to agreed on operating expenses, capital expenditure and performance incentives. Weighted Average Cost of Capital (WACC) which represents the profit that the companies are allowed to make.

In Principle, Price control set a limit or an upper ceiling for allowed revenues of monopolistic companies through a series of procedures and processes span for two years that includes an extensive exchangeable information/data with sector companies. Usually that happened through four consultation stages by releasing four consultation papers to the concerned and include their responses along with DoE analysis/decision into the final proposals which set the MAR for next period of price controls.

Price Control Period 2 (RC2)

The Revenue Control 2 (RC2) is the new DoE regulatory price control, completed with the Network Companies of Abu Dhabi for the period 2023-26. The recently completed process has determined the maximum allowed revenue for each company, capping the amount of profit each entity can charge customers, whilst agreeing the investment levels to meet challenging targets and determined cost levels required to operate each business.

As the sector regulator, DoE must ensure that this investment is efficient, whilst balancing network and customer requirements. The key objectives of RC2 have been to:

- Protect customer interests
- Efficiently invest in network infrastructure to ensure security of supply whilst meeting growth requirements.
- Enable delivery of low-carbon sustainable aspirations, facilitating the energy transition within the sector
- Enhancement of the regulatory framework

RC2 delivers a fair outcome for the sector and the customer through driving efficiencies and performance improvements, while only allowing additional costs on delivery of outputs that ensure benefits.

Area Served and Entities Involved



There are four separate entities involved in the network RC2 process within Abu Dhabi:

1. TRANSCO, which is responsible for the transmission of both water and electricity in the Emirate of Abu Dhabi and exports outside Abu Dhabi.
2. ADDC, which is responsible for distribution and supply of water, recycled water, and electricity to over 790,000 customers in the Municipality areas of Abu Dhabi and Al Dhafra Region.
3. AADC, which is responsible for distribution and supply of water, recycled water, and electricity to over 250,000 customers in the Municipality area of Al Ain; and
4. ADSSC, which provides sewerage services (collection, treatment, and disposal) to over 450,000 customers within the Emirate of Abu Dhabi.

The controls do not apply to electricity generation or water production.

The RC2 Process

To deliver the RC2 Price Control with the network companies listed above, there has been considerable effort, and collaboration between the DoE, network companies and other sector stakeholders. This RC2 process signals incremental changes to the Abu Dhabi regulatory framework, by looking at the continuous improvement of the outputs customers want to see delivered, working closely with the companies to enhance the regulatory framework to assess the large capital programs that characterise the sector, and tailor the price control mechanisms to deal with uncertain in a phase of sector transformation.

The price control review is a complex project that spans over more than two years, and culminates in the determination of the new price control. In the case of the RC2, the RC2 review started in late 2020, and concluded in November 2022 with the publication of the RC2 Final Decision – the price control that applies from 2023 to 2026. The key steps involved in this process are:

- The DoE leads the development of the strategy for the RC2 framework, consulting with the sector on the strategy and key principles for the RC2 review;
- There are then multiple rounds of consultation and feedback from the sector companies, covering the price control framework (e.g. the duration of the RC2), detailed aspects of each separate business costs, the reasonable allowed return on the investment made by the companies, or specific outputs and how the companies could be incentivised to deliver them.. This process involves strong collaboration, in order to appropriately assess the material impact on the future of the power and water sector, and balance growing capabilities needs, financing for the sector and protecting the network and customers;
- The DoE then makes a final decision on the price control, taking in consideration all the feedback received from stakeholders and its own analysis of costs and outputs for the price control period;
- The network companies are required to formally agree with the final decision before progressing to implementation.

While a complex and long process, the price control review is also a continuous evolving process. The Department of Energy is already looking to reviewing this process in advance of the RC3 review, looking to improve its efficiency and effectiveness with an ultimate goal of protecting the interests of the customer, government, the environment and continue to drive forward and the sector to be recognised as one of the global leaders on power, water and wastewater services.



What does RC2 mean for Customers?

The DoE recognises the need for the sector to deliver for the environment as well as the customers. As part of this overarching improvement and environmental enhancement, new investments and innovation will be championed to drive a step-change in performance.

The DoE has also challenged the network companies to improve their operations in order to improving the outcomes to customers. These include, for example:



Driving Efficiency

Companies set challenging efficiency targets to reduce sector costs, tariffs, and the subsidy. Aiming for on average a ~9% efficiency of operation



Delivering Performance Improvements

Efficient investment and incentives to deliver services improvement and broader strategic objectives with new capital investment to deliver the outcomes and the introduction of 22 performance target linked to performance penalty and bonus



Manage Risks

Company cost allowances are conditional on delivery of outputs that ensure benefits while ensuring the sector remains financeable, 11% of company Opex remained conditional on delivering benefit and managing risks



Preparing for RC3

Companies asked to plan to transform and modernise their organizations, which will help the, drive the sector be sustainable in the long-term, by enhancing data quality transforming operations and modernizing IT infrastructure

RC2 attempts to place customer outcomes at the centre of the price control process. Some of the key customer outcomes that are expected to follow from the implementation of RC2 final decision include:

Meeting future demands

- A total of AED 16.2 Bn is expected to be invested in refurbishing and/or building new network in the sector over the next 4 years, in order to meet growing demand for water, electricity and wastewater services in the Emirate.

Enhanced Customer Service

- Continued focus on customer measures and outcomes
- Investment in new customer interfaces and service operations
- Enhanced scrutiny on key performance indicators

Reliable Security of Supply

- Increasing investment in existing assets, refurbishing and renewing key critical infrastructure
- Innovation and advanced maintenance practices are expected to minimise service disruption

Focus on supporting low-carbon energy integration into the network

- Supporting the government and guiding the sector in relation to net-zero aspirations
- Working with other sector partners to integrate solar and nuclear power into the grid

Enhanced asset management from the service providers

- Smart-grid technology and software to proactively manage assets
- Enhancement of field operation capabilities with the introduction of new innovative technology

Protect Employees and the Environment

- Additional care and due diligence taken with health and safety improvement initiatives
- Further focus on sewer network management, blockages and reduction of environment impact of operations and construction