**TERMS OF REFERENCE FOR A DIRECTED WRC PROJECT**

**THEME:** **Water Use**

**TITLE** **Determining the impact of the infrastructure depreciation methods (straight line method vs replacement value) on the tariff.**

**TOR NUMBER** 1010016

**Rationale**

It is important to understand that the word 'depreciation' is used in a different context for valuation than at the accounting stage of financial reporting. In a DRC valuation, 'depreciation' refers to the reduction, or writing down, of the cost of a modern equivalent asset to reflect the subject asset's physical condition and utility together with obsolescence and relative disabilities affecting the actual asset. In financial reporting, 'accounting depreciation' refers to a charge made against an entity's income to reflect the consumption of an asset over a particular accounting period. These are distinct usages of the word. For the purposes of this , the terms 'valuation depreciation', which equates to obsolescence, and 'accounting depreciation' will be used to clarify meaning and context. Both these factors have an implication on the setting and use of tariffs, and in most cases is not factored into consideration during tariff setting. Thus this studies intent is to examine the consequences of the depreciation methods on the tariff processes.

**Main Objective**

1. Development of Incentive based tariffs to promote water reuse, recycling and reclamation

**Expected Deliverables:**

1. A high level evidence based position paper
2. Highlighting policy and regulatory gaps
3. Any specific guidelines and recommendation which may be required.

**Total Budget:** R 600 000.00
**Year 1:** R 300 000.00
**Duration:** 14 months