

# ECRAN National Roundtable on Cost recovery

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## Project summary

<b>Project Title</b>	Environment and Climate Regional Accession Network
<b>Client</b>	European Commission – DG Environment
<b>Project Starting Date</b>	01 October 2013
<b>Project Duration</b>	36 months,
<b>Beneficiaries</b>	8 beneficiary countries (Croatia only in selected activities)



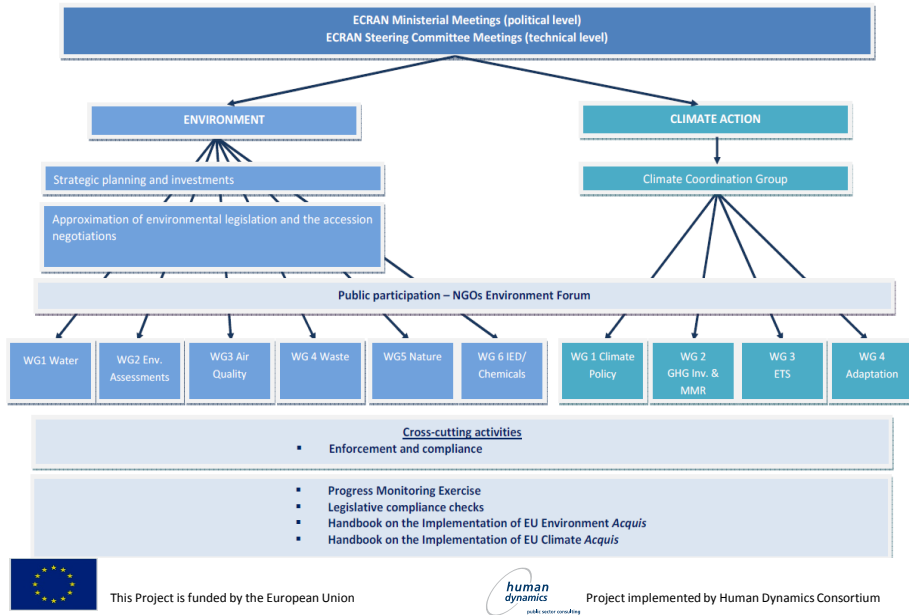
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# ECRAN Structure

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## STRATEGIC PLANNING AND INVESTMENTS WORKING GROUP



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## Main tasks

- Task 2.2.2 Strategic planning
- Task 2.2.3 Cost recovery and tariff setting (or economic/financial analysis)
- Task 2.2.4 Capacity building for IPA project fiche preparation



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## Task 2.2.2 Strategic planning

- Strategic planning task is being implemented by three subtasks:
  - Meta-planning and country specific discussions
  - Regional training on the role of planning documents in approximation process and management of the process for chapter 27 using approximation policy documents
  - Combined regional trainings between the Strategic Planning Working Group and sector specific Working Groups



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## Task 2.2.3 Cost recovery and tariff setting (or economic/financial analysis)

- The subtasks include:
  - Two regional trainings on economic-financial analysis and cost recovery combined with other ECRAN sector specific Working Groups (waste management, water management etc.)
  - Tailor made/national round table discussions and/or trainings



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## Combined regional trainings on economic-financial analysis and cost recovery

- Two regional trainings on economic-financial analysis and cost recovery with:
  - Water Management Working Group.
  - Waste Management Working Group.
- First combined regional workshop with Water Management Working Group on Economic Analysis in Accordance with WFD took place on 21-22 October 2014 in Skopje
- Second regional workshop with Waste Management Working Group on Cost recovery in waste sector took place on 18 - 19 March 2015 in Tirana



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## National roundtables on cost recovery

- Topics for national roundtables have been identified using outputs of combined trainings for Water sector and Waste management sector
- Special CBA training program has been elaborated with following objectives:
  - to familiarise with cost – benefit analysis and its application in the sector of environment
  - increase practical experience in evaluation of Cost-Benefit Analysis of investment projects



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## Task 2.2.4 Capacity building for IPA project fiche preparation

- 2<sup>nd</sup> (final) workshop planned for beginning of 2016
- Proposed, that the workshop could be organised in EIB headquarters (because of JASPERS)



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## ROUNDTABLE



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### Regional Workshop on Economic Analysis in Accordance with WFD

- Countries in the region still lack well established methodologies for cost recovery
- Mandatory nature of the Methodology and establishment of Regulator is essential
- There is no EU wide Methodology and it is not expected to be developed

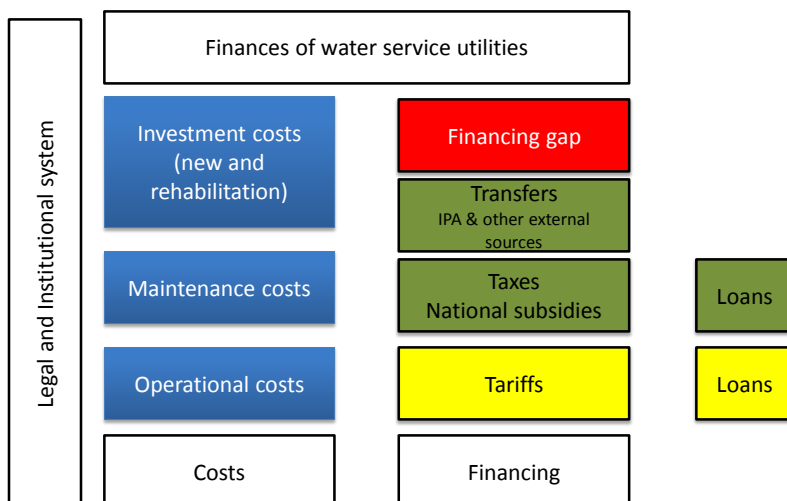


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## Policy implementation



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## Tariff structures

- Tariff mechanisms used by various countries can be grouped into following tariff structures:
  - Flat rates (either uniform or differentiated): customers pay a flat rate regardless of their consumption. This can be uniform, or differentiated based on customer characteristics, season, etc. Application of such tariffs structure does not require metering;
  - Single volumetric rates with/without uniform or differentiated fixed charges: a single rate per cubic meter is applied regardless of volume consumed. This is applied with or without a recurrent fixed charge. Fixed charges can be uniform or vary according to customer characteristics. Application of such tariffs structure requires metering;
  - Increasing block tariffs: the volumetric charge changes in steps with volumes consumed;
  - Adjusted Increased block tariffs: either the volumetric rates applied to each block or the size of the blocks are adjusted based on specific customer characteristics (e.g. family size, income);
  - Decreasing block tariffs: the volumetric rates decline with successive consumption blocks.



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# Regulator

- EU and Candidate Countries have various institutional approaches to regulation of water prices. They vary from self-regulation to special independent public administration bodies with number of variations in between mainly regarding responsibilities of municipalities or allocation of regulatory functions to some of ministries
- Though some countries have established special regulators for water sector (e.g., Croatia, UK, Portugal) there is a clear tendency in recent years to add regulatory functions to already established energy sector regulators or to other institutions with broader scope of regulation of natural monopolies
- One of main reasons for such combinations of functions is cost saving for administration and better use of accumulated knowledge and experience. For example, such institutions are functioning in Albania (just water and waste sectors), Bulgaria, Hungary, Ireland, Italy, Latvia, Lithuania, Romania, Slovakia.



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# Affordability 1

- There is no affordability level established at EU level
- Affordability rate has to be established nationally in order to ensure the same approach to all investment projects
- There are various systems in EU countries used for making water affordable



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## Affordability 2

Country	Metric	Threshold
Croatia	Average Household Income	2.5 – 3%
Czech Republic	Average Household Income	2%
Romania	Lower Income Group	4%
Poland	Average Household Income	3%
Hungary	Average Household Income	4%
Slovakia	Average Household Income	2.5%
Slovakia	Lower Income Group	4%
Lithuania	Average Household Income	4%
Portugal	Household disposable income	3%
Romania	Household income	4-5 %



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## Access to water

- Number of social measures to support poorest levels of society is being used with social tariffs, income support and direct subsidies prevailing
- Social policies to provide accessibility to water for poorest are recommended instead of keeping artificially low affordability levels and consequently tariffs, which prevent sector from development and at the end mostly effect accessibility for poorest



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## Sustainable cost recovery

- It is important to focus on recovery of operational and maintenance costs before full cost recovery can be achieved (sustainable cost recovery versus full cost recovery)
- Environment and resource costs can be added later when affordability allows



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## Structure of costs

- General tendency for older MS is to have more than 50% of the tariff cover capital costs. While new MS tend to allocate a bigger part to cover operational costs
- With the exception of few MS, full economic and environmental costs recovery in water prices is target for the future



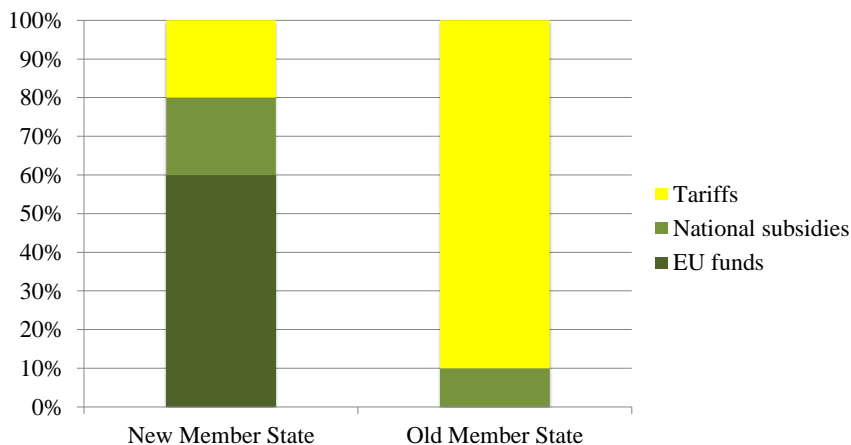
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## EU Member State practices. Investment

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## Economic instruments

- Increase in water price because of cost recovery tariffs may be bigger incentive compared to artificially low tariffs combined with economic instruments to provide incentive for water savings



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## Price impacts

- Increasing water prices are having impact on water use in the domestic sector, particularly where previously subsidised
- In some countries water consumption fell down considerably after cost recovery was introduced in a bigger scale:
  - In Czech Republic water use fell from 171 to 116 l/cap/d between 1989 and 1996 when above inflation charges were introduced in 1993 to cover operating costs
  - In Estonia a fivefold increase in water prices between 1994 and 1999 produced a noticeable reduction in domestic water use
  - In Hungary, water prices increased from 0.2 Euro to 0.5 Euro/m<sup>3</sup> after subsidies were removed in 1992 which led to a decline in water use of about one-third by 1996



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## Agenda 1

- Two days roundtable 17 - 18 November 2015
  - First day – Cost recovery in waste sector:
    - Developing municipal solid waste management sector in the country
    - Cost recovery and tariffs setting. MS experience. Estonia
    - Cost recovery and tariffs setting. MS experience. Italy,
    - Cost recovery and tariffs setting. MS experience. Lithuania
    - Roundtable: how to approach the cost recovery system



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## Agenda 2

### – Second day – Cost recovery in water sector:

- Developing water and waste water management sector
- Cost recovery system in water sector
- Cost recovery and tariffs setting. MS experience.  
Romania
- Cost recovery and tariffs setting. MS experience.  
Croatia
- Cost recovery and tariffs setting. MS experience.  
Lithuania
- Roundtable: how to approach the cost recovery system



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## Roundtable: several questions to answer

- What is the tariffs setting system used in RS?  
How the system is established?
- What is experience of several EU Member States for tariffs setting?
- Is there a need/ room for improvements?
- What could be next steps?



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# Thank you for your attention!



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