

Workshop

“Tools and guidance for assessing resource and environmental cost in the WFD”

29-31 March 2016

ECRAN 61725

Cost recovery and incentive pricing
Case studies



This Project is funded by the European Union



Project implemented by Human Dynamics Consortium

Structure of the presentation

- WATECO Guidance doc
- WFD legal basis
- Article 9 WFD
- Cost categories

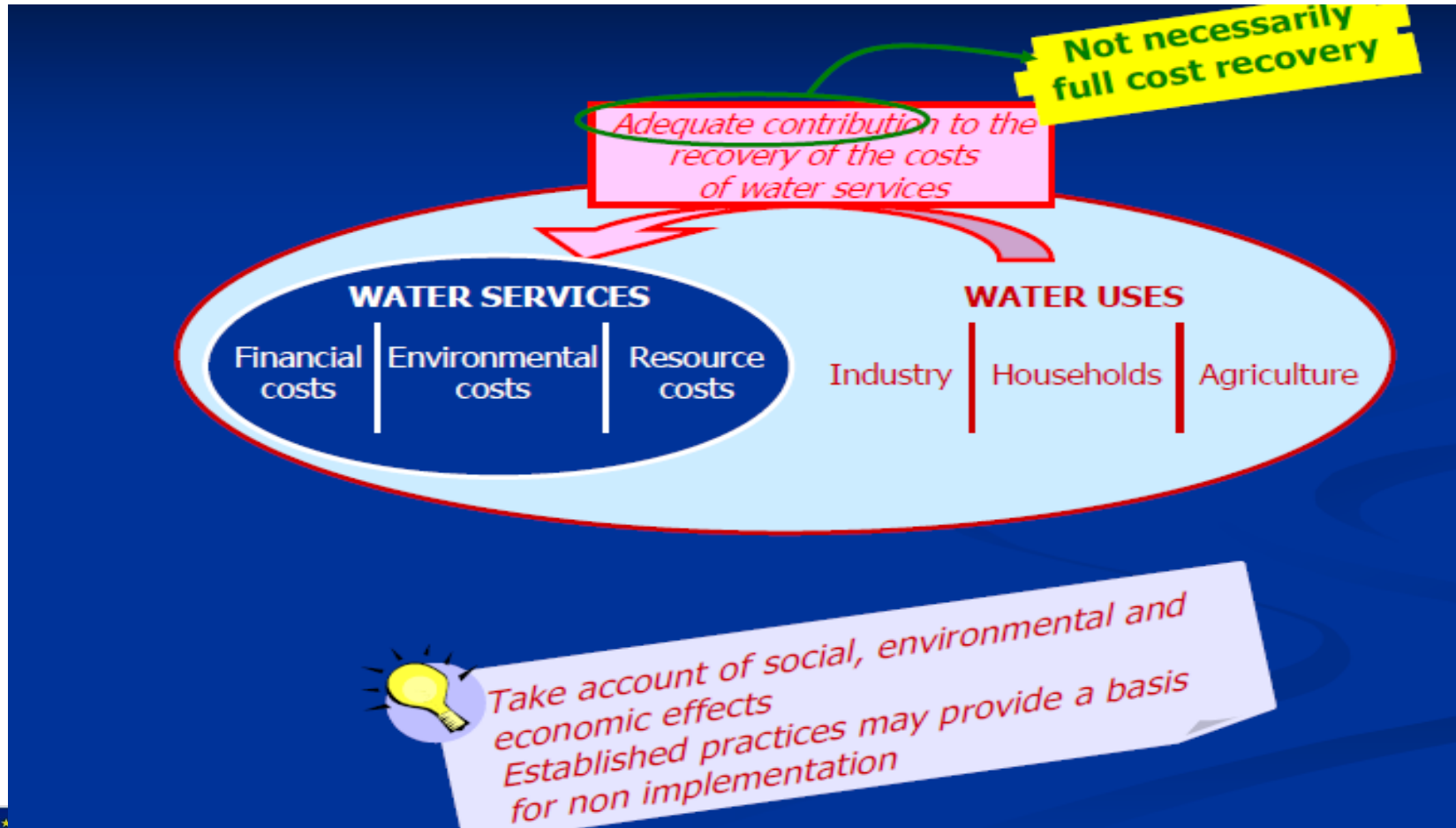


This Project is funded by the European Union



Project implemented by Human Dynamics Consortium

CR in WATECO GD



Legal basis: Cost recovery, WFD

„Member States shall take account of the principle of recovery of the costs of water services, **including environmental and resource costs** [.....] and in accordance in particular with the polluter pays principle..

Member States shall ensure by 2010:

an **adequate contribution** of the different water uses, disaggregated into at least industry, households and agriculture,, to the recovery of the costs of water services“ (Art.. 9 (1))..



This Project is funded by the European Union



Project implemented by Human Dynamics Consortium

Art 9 implementation (1)

A pragmatic approach to create a data base in relation with water pricing policies in order to identify proper solutions on basin wide scale

Possible questions for the countries:

- What are the main gaps identified in relation with implementing an adequate water price policy (i.e. assessment of environmental & resource cost, cross subsidies, lack of incentives instruments...)
- Which economic sectors are covered by the cost recovery calculations (full/partially).
- Which are the water services covered by cost recovery policy and which not? (i.e diffuse pollution).
- What are the rate of cost recovery per sector?



Art 9 implementation (2)

- What kind of economic instruments (price/tariffs/contributions...) do you use in relation with PPP, Beneficiary pay principle?
- Do you apply economic incentives.? (i.e higher tariffs for higher consumption), What kind?
- For which economic sector?
- Do you estimate the trend of water prices in relation with the future water demand? Per economic sectors? What it will be?
- Do you take into account the climate change in future water price policy?
- Do you have a data base related to the water pricing policy?



Cost categories

In order to achieve full cost recovery 3 main categories of cost should be taken into account:

- **Financial Cost** : Operation and maintenance cost
- **Resource Cost** : Opportunity cost
- **Environmental Cost**: The cost is created either from the deterioration of water quality from pollution or deprivation of quantity of water from the different uses.



This Project is funded by the European Union



Project implemented by Human Dynamics Consortium

Financial costs

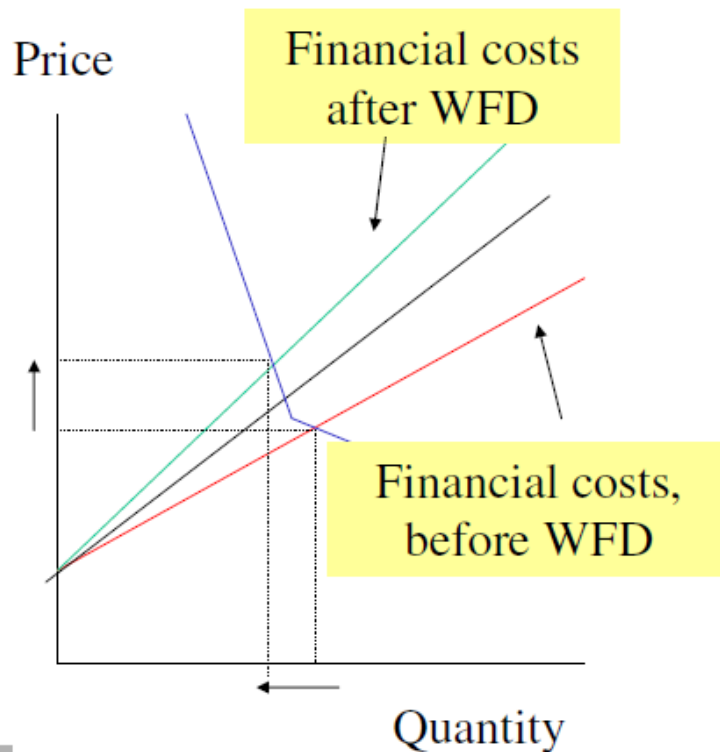
Cost Recovery

What costs:

- Operating costs
- Return of capital
- Return on capital
- Environmental costs
- Resource costs

WFD should internalise
these external costs

Long average costs or
marginal costs?



What are these costs?



This Project is funded by the European Union

WFD Art 2 Water services

Definition of water services

Cost recovery is restricted to water services!!

Question:

Does impoundment and storage of surface water and groundwater include economic activities of all kinds such as agriculture, inland navigation, mining, flood protection, hydropower and land drainage?



This Project is funded by the European Union



Project implemented by Human Dynamics Consortium

Water pricing (1)

- According to the EEA's glossary, water pricing is defined as 'applying a monetary rate or value at which water can be bought or sold'.
- Arcadis et al. (2012) proposes a broad definition of water pricing, describing it as 'monetizing the abstraction, use, or pollution of water'; this broader definition is used in the Aquamoney project



Water pricing (2)

Prices for water services can be charged in many ways.

Water tariffs are prices assigned to water supplied by a public or private utility through a piped network to its customers (see <http://www.eea.europa.eu/data-and-maps/indicators/water-prices>).

Water charges are usually made for the (compulsory) payment related to a specific service, e.g. wastewater collection and treatment, but they are also applied to levies on emissions/discharges (air and water pollution charges) and for water supplies.



This Project is funded by the European Union



Project implemented by Human Dynamics Consortium

Incentive pricing

- For Article 9 on cost recovery for water services: the ESA can be used as support for environmental and resource costs assessments, or at least for the identification and characterization of these costs.
- Incentive pricing relates to how water users pay for their use, and whether the right price signals are transmitted, i.e. how water is being paid for, and how the water price affects water user behavior.



This Project is funded by the European Union



Project implemented by Human Dynamics Consortium

Applying cost recovery

Cost recovery is about the amount of money that is being paid for water services.

The principle extends not only to the financial costs of the provision of water services, but also to the costs of associated negative environmental effects (environmental costs) as well as forgone opportunities of alternative water uses (resource costs).

The PPP examines the adequacy of contributions from different water uses, essentially disaggregated into industry, agriculture and households, toward the total cost based on their role in generating these costs, i.e. it addresses the question of who pays for water.



This Project is funded by the European Union



Project implemented by Human Dynamics Consortium

Difficulties and limitations

Part of the population is facing major difficulties to pay water bills!

What to do ?

Solutions:

- **Continue !** continue to track it in the coming years and link it with the development of programme of measures (i.e. assess the impact of planned works to water price) (France)
 - Observe agglomerations implementing the WFD and UWWTD where efforts to meet WFD objectives should lead to major increase in water price
 - Extend solidarity principle, delay or less stringent objectives
- social tariffs (e.g. Flanders' experience, blocks tariffs, development of water savings, renew confidence in tap water.



This Project is funded by the European Union



Project implemented by Human Dynamics Consortium

Examples (1)

Slovenia

The Environmental Protection Act (OJ RS, No 41/04, 17/06, 20/06, 28/06) are the legal embodiment of the WFD's PPP.

The introduction of this principle has given rise to a significant source of measures for financing environmental protection policy.

The introduction of water pollution-related tax exemption was well received in the area of wastewater collection and treatment.

The tax for suitable wastewater collection and treatment is 10 times lower.



This Project is funded by the European Union



Project implemented by Human Dynamics Consortium

Examples (2)

In Scotland and the Netherlands, environmental costs appear to be considered:

- Water polluters have to pay for the purification of their wastewater as well as for activities (discharges, abstractions, impoundments and engineering) that affect water quality.
- Resource costs in Scotland are considered through the charge on water abstraction.
- In the Netherlands, resource costs used to be considered in the groundwater tax, but this tax was abolished in 2012.



This Project is funded by the European Union



Project implemented by Human Dynamics Consortium

Thank you!



This Project is funded by the European Union



Project implemented by Human Dynamics Consortium