



Customers and cost recovery

Realising the Water Framework Directive

Summary

Over the past 15 years the Water Framework Directive (WFD) has ensured greater public consultation, involvement and engagement in water and environmental policy. But overall, customers and citizens need a much greater understanding of the value of water, including water pricing policies and the governance of water services, namely which players are involved, who takes the decisions on how water services are managed and who is responsible for what. In each Member State a number of actors have a role in increasing this public awareness, such as water utilities, municipalities or water authorities.

The WFD, lays down the principle of cost recovery for water services in Article 9, including environmental and resource costs. The water supply and waste water infrastructure in many parts of Europe is ageing. In some countries, the charges collected from the users are not sufficient to maintain and renew the systems in due time: tariffs should be set on the basis of the investment needs of the water infrastructure.

Cost recovery should be assessed for the class of users and water service users. The WFD identifies three classes in Article 9 as households, industry and agriculture. The revision of the WFD should ensure that the abstraction of water for agricultural purposes in areas with water scarcity is subject of a price (e.g. an abstraction fee) as stated in Art. 9 (1). In case of water allocation conflicts, water abstraction for drinking water purposes should a priority over other uses.

The WFD requires those who benefit from public water services to cover the cost of providing these services; therefore, the Polluter Pays Principle should be extended in the WFD so as to include the 'User Pays' Principle as well.

1. Background

In the past 15 years the Water Framework Directive (WFD) has ensured greater public consultation, involvement and engagement in water and the environment, which are essential to the implementation of the directive.



Public awareness on the status of water bodies and the impact of human behaviour on the aquatic environment has been raised and stakeholders are encouraged to cooperate thanks to the river basin management plan approach.

But overall, customers and citizens need a much greater understanding of the value of water, including water pricing policies and the governance of water services, namely which players are involved, who takes the decisions on how water services are managed and who is responsible for what. In each Member State a number of actors have a role in increasing this public awareness, such as water utilities, municipalities or water authorities.

2. Cost recovery

Cost recovery and vital needs for investing in infrastructure

The WFD, lays down the principle of cost recovery for water services in Article 9, including environmental and resource costs. The water supply and waste water infrastructure in many parts of Europe is ageing. In some countries, the charges collected from the users are not sufficient to maintain and renew the systems in due time.

Costs to be recovered from consumers should in principle include depreciation, renewal and maintenance costs, as well as the cost of financing long-term investment, so that the benefits are shared between current and future generations in a sustainable manner.

The charges should be set on the basis of the investment needs of the water infrastructure. To this end, water operators are subject to strict regulation, since they render their services in a monopoly regime. In some cases, independent regulators or other accountable public authorities set and approve the tariffs. In other cases, water utilities set the tariffs and are supervised by an independent public body or organisation.

Any moves to undermine the model that allows water services to be financed through tariffs will, inevitably, result in the decline of the level of service provided to the consumer and increase risks to the environment and public health, due to a lack of maintenance and investment in water infrastructure. This in turn will lead to lost employment opportunities in the sector.

There is therefore a need to strengthen the Cost Recovery Principle, which is currently stated in general terms in the WFD. The upcoming revision of the legislation is the right moment to address this issue.

The revision of the WFD should also take into account the '3Ts' methodology developed by the OECD. In order to deliver water services in a sustainable way, all costs must be recovered through tariffs, taxes and/or transfers (the



3Ts). Indeed, the right balance between these types of funding can collectively make up the basis for sustainable cost recovery, which must reflect the costs structure of the service.

Customer awareness in regard to the state of the infrastructure

Public awareness must be raised as to the role of water operators in constantly providing clean and safe drinking water and treating waste water before returning it to the environment. Water operators take care of the natural environment and play an active role in the protection of water resources. Population growth and urbanisation must be taken into account when water services plan the infrastructure and, accordingly, the investments needed.

These investments are essential to protect public health, to preserve a diverse and complex environment, and to support economic growth. Where appropriate, operators promote citizens' information programmes that support the sustainable use of water, invest in increased metering, provide bathroom and kitchen fixtures at little or no cost, and support educational projects in schools. However, customers are rarely informed of the extent to which investments in maintaining, renewing and developing the water infrastructure have to be secured, so it is difficult for them to realise the real costs of providing water and sanitation services.

EurEau welcomes the review process of the WFD, providing an additional opportunity to better involve the public and inform on the role of water operators while drawing attention to the importance of investing in infrastructure to ensure the sustainability of water services.

3. Water pricing

Polluters and users have to pay

The 'Polluter Pays' Principle promotes the sustainable use of water, as the polluter is incentivised to reduce or to avoid pollution. This balances the cost of preventing pollution with that of mitigating its impact. The Polluter Pays Principle relies on incentive-based water pricing and on correct economic cost allocation.

Water services in some countries are obliged to apply additional treatments to water to remove pollution that often originated from industrial or agricultural practices. The additional costs of operating within such a polluted environment should not be recovered from water service users but from the entity that caused the pollution. In the case of historic pollution, where nobody can be easily identified as being responsible for it, the costs should still not be recovered from current water service customers.



The WFD requires those who benefit from public water services to cover the cost of providing these services; therefore, the Polluter Pays Principle should be complemented in the WFD by a 'Users Pay' Principle extended to all.

Water pricing to include the impact of changes in water consumption

Most of the costs related to providing water services are not variable, but fixed. This needs to be reflected in tariff structures allowing full cost recovery, i.e. including a significant element of its fixed part, while keeping an incentive for customers to use water efficiently.

In many countries the fixed charge for water services does not reflect the fixed costs borne by the operators: these costs are for the remaining part covered by the element of the bill that relates to water consumption (€ per m³). This is often a politically-driven means to reduce water consumption.

In countries where there is no fixed charge at all, a reduction in water consumption means a reduction in income and the capacity for investment. This could threaten the long-term viability of water operators and therefore access to quality water services for future generations.¹

The use of water pricing to help reach sustainability objectives

A growing trend in national legislation is to cap the fixed part of the water bill at a low level to encourage a reduction in water consumption through volumetric tariffs. While this is understandable from a demand management point of view, it is contradictory to the economic reality of water operators in terms of cost structure

The revision of the WFD should make sure that an appropriate proportion of the fixed component is provided in the water tariff. This would have a number of positive consequences:

- ~ Water and waste water operators would have a more stable and predictable revenue stream allowing them to better plan investments. In turn, this would send appropriate price signals to users on the relationship between water use and water scarcity.
- ~ Ensuring a better alignment of the fixed element of the water tariff with the fixed costs incurred in providing the service would avoid unnecessary exposure to fluctuations in demand caused by periods of extreme weather. This could lead to more predictable bills for customers, as well as a more effective link between the costs operators incur and the revenue they need to cover them.
- ~ In parallel, households would pay a price for the services that would reflect the 'real cost' of water services, sharing the costs in a more equitable way. If necessary, national or local governments can set

¹ Assessment of cost recovery through water pricing, European Environment Agency Technical report, No 16/2013; p. 53 and 89.



affordability mechanisms for households in difficult economic conditions.

- ~ In addition, if the fixed element of the bill is low in relation to the fixed cost of providing the service, it means the variable element of the bill is more significant. This has a disproportionately high impact on users for whom water consumption for basic needs is high, including some of those who are most vulnerable – for example, larger families with younger children.
- ~ For private and industrial uses (in particular reservation, seasonal and standby tariffs) where the customer has private supplies but retains the right to use the public supply, fixed tariff elements should also be considered. Water and waste water operators should be able to ensure that customers who may rely on the public supply network continue to pay the long term cost of maintaining it, even if they use today their own supplies. Solutions do exist, such as the 'take or pay' model applied to water-intensive business customers.

Environmental and resource costs in cost recovery

The WFD introduced the concept of environmental and resource costs in connection with both the Polluter Pays Principle as well as cost recovery for water services. The inclusion of environmental and resource costs in the water tariff is a sound objective, which relies on an efficient application of the Polluter Pays Principle. Otherwise, this approach could lead in some cases to a significant increase in the price of water services for urban users.

The Polluter Pays and the User Pays Principles are essential and key notions of the WFD.

Member States should not fall in the practical and politically easier solution of charging the users of the urban water services for expenses that should be borne by other categories of users and polluters (agriculture, industry etc.). It is a practice in many Member States, despite the WFD stating that "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."

The revision of the WFD should consider taking into account the transfer of these costs (cost reflectivity), which would help to mitigate some of the price increases for water customers that could arise from charging environmental and resource costs under article 9 of the WFD.

Adjust the coherence between both the cost recovery and User/Polluter Pays Principles

In keeping with the principle that the polluter should pay, the definition of cost recovery of water services specifies that water service users pay for the



costs which they cause, whether these costs are financial, environmental or related to the resource.

Cost recovery should be assessed for the class of users and water service users. The WFD identifies three classes in Article 9 as households, industry and agriculture.

The revision of the WFD should ensure that the abstraction of water for agricultural purposes in areas with water scarcity is subject of a price (e.g. an abstraction fee) as stated in Art. 9 (1). In case of water allocation conflicts, water abstraction for drinking water purposes should a priority over other uses.

Cost recovery and adaptation to climate change

Climate change and the pressures exerted by a rapidly growing population on environment put a strain on natural resources worldwide. Current practices across economic sectors are still not sufficiently environmentally or sustainably ambitious; they fail to address the stress conditions of vital resources like water.

Climatic conditions vary greatly across the EU and water availability varies geographically and seasonally. Water operators need to adapt, develop and renew water assets to take these effects into account. Currently in most countries this is not covered by current water pricing. Encompassing climate change considerations in the WFD should trigger the inclusion of climate change adaptation needs in pricing policies in order to finance the necessary upgrade of the water infrastructures. New technologies may become available with implications for the cost structure of the water industry. The risks and uncertainties inherent in the unpredictable context of the effect of climate change should be taken into account when designing a water pricing system.²

4. Communication

Communication strategies and public participation for different users to understand water prices and the need for cost recovery to reinvest in the water cycle

EU citizens voiced their desire to be more involved in water related issues and in water governance.

The European Commission decided to open a far-reaching debate on the evaluation of the Drinking Water Directive (DWD), in the framework of the preparatory studies for its revision. In the public consultation, EU citizens proved they were satisfied with the water services received, but there was

² European Environment Agency technical report, *Assessment of cost recovery through water pricing*, No 16/2013.



lack of knowledge about the situation of water services in an EU country other than their own.

It is important that the information delivered by water services to their stakeholders and consumers is relevant and conveyed in a clear and understandable way so that they are truly empowered.

EurEau would welcome an online portal set up by the European Commission or by the European Environmental Agency with a map redirecting to existing water companies websites containing information relevant for consumers in each Member State.

This could also help raising awareness on the important investments that are needed to ensure the right to water and sanitation. This can only be achieved through the implementation of efficient cost recovery.

Therefore these discussions should be extended to the WFD. This would also ensure synergies between water sector legislation.

A need for greater consultation and involvement of the public

Recital 14 of the WFD recognises that *"The success of this Directive relies on close cooperation and coherent action at Community, Member State and local level as well as on information, consultation and involvement of the public, including users"*.

Article 14 of the WFD specifies that *"Member States shall encourage the active involvement of all interested parties in the implementation of this Directive, in particular in the production, review and updating of the river basin management plans"*.

EurEau fully supports these provisions and believes that public participation at an early stage could facilitate the public understanding of the cost of water and the different pricing policies in place.

The revision of the WFD appears to be the right opportunity to address these issues and to clarify what are the minimum common requirements under the Directive.

Customer and social aspects of water charges

Art. 9 of the WFD states the *"Member States may in [recovering costs for water services] have regard to the social, environmental and economic effects of the recovery"*. EurEau would like to underline that in case customers do not pay for the public water services, additional costs will be borne by others.

In case citizens (domestic households) cannot afford to pay their bill, laws or contract agreements foresee measures to allow both customers and water services to maintain the service provided.

~ Some Member States have social tariffs in place, or social funds, but



these are instruments of social policy. In some cases water operators are involved in designing them or contribute directly to them, but they are managed by the states or the local authorities.

- ~ Disconnections are generally allowed if consumers do not pay their bills, but they are a means of last resort (see the EurEau paper on 'Access to water and measures in case of non-payment').

EurEau recommends that the support of customers who cannot pay the water bill should be addressed with social policy instruments and not to be covered by water services.



About EurEau

EurEau is the voice of Europe's water sector. We represent drinking and waste water service providers from 29 countries in Europe, from both the private and the public sectors.

Our members are the national associations of water services in Europe. We bring national water professionals together to agree sector positions regarding the management of water quality, resource efficiency and access to water for Europe's citizens and businesses.

Our members are fully committed to the continuous supply of clean water and its safe return into the water cycle. We raise awareness of threats to the water environment. With a direct employment of around 542.000 people, the European water sector makes a significant contribution to the European economy.



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