

# COMMENTS ON THE GAZETTED PRICING STRATEGY FOR RAW WATER USE CHARGES

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## 1. INTRODUCTION

The Department of Water Affairs and Forestry has published a revised version of the Pricing Strategy for Raw Water for public comment.

The strategy contains two new elements namely a waste discharge charge system and the collection of water research funds.

BUSA welcomes the opportunity to submit comments to DWAF regarding the draft Pricing Strategy for Raw Water. Some of our affiliates commented previously on a draft of the strategy. The changes made in response there input are welcomed.

We trust that our constructive comments will contribute towards developing the Pricing Strategy as an effective strategy aimed towards optimal triple bottom line utilisation of water as a natural resource.

The points and comments provided below include points that were previously raised but were not addressed, and are believed to be of significance and hence are raised again, as well as additional comments and requests for clarity.

## 2. GENERAL COMMENTS

- 2.1 The basis of the strategy is to recover the cost of the management of water resources directly through water charges. No reference is made to the fact that these funds are largely currently supplied from the fiscus.
- 2.2 Whilst the document as a whole is currently more structured, an explanatory table listing all the charges would be welcomed for consolidation. To extract all the charges from the document is a confusing process. The list would provide a concise summary of all the categories and charges that are discussed in the document and how these would be applied towards effective water resource management.
- 2.3 Comments were previously submitted by some of the BUSA affiliates with regards to the depreciation and return on asset (ROA) charges. However, BUSA is of the opinion that DWAF needs to revisit the capital cost charge setting process to ensure that sound financial practises are applied and there is no double counting. As highlighted previously, ROA should not be charged on off-budget projects. It is understood that operating and maintenance charges will keep a specific infrastructure working, that depreciation charges will be used for refurbishment to restore the original capital value of the asset, and ROA charges will be used for development and betterment on government water schemes.

- 2.4 With regards to tariff increases, it was understood from earlier discussions with DWAF that a principle of PPI+10% annual increase could be used for the phasing in of any new tariffs until the deficit or current level of under-recovery (27%) has been eradicated, and that the annual increases on current tariffs will stay below PPI where possible. However, in the water pricing strategy document itself no reference to annual price increases or how new tariffs will be introduced and increased, can be found. In section 6.3.6 (last paragraph) it is mentioned that there is a need to increase prices over time to accommodate the cost of effective and financially sustainable water management institutions. Only annual increases for social schemes (section 7.1.7) and development charges (section 10) are specified (both at PPI+10%). Please could an indication be included as to how annual price increases will be calculated on new and existing charges, and on what these are based, and what is the expected timeframe for eradicating under-recovery? It is crucial that industry is aware of the estimated tariff increases in order to determine effective strategies for cost implications.
- 2.5 It is noted under section 7 (Funding) that two additional sections have been added, namely betterment charges (7.1.5) and capital unit charges (section 7.1.4). Betterment charges are included under the ROA charges, and hence should not be dealt with separately. Capital Unit charges could be perceived as double counting where the end user has already provided finances to water management institutions such as the TCTA for off-budget schemes.
- 2.6 Clarity is requested with regards to the DWAF financial year. There is a degree of ambiguity in the document, with April and June both used for charge setting (June: 7.1.2; April: 12). In addition, when and on what basis will charges be reconsidered each year?
- 2.7 Concern is raised with regards to the length of the document. DWAF have previously indicated that they would deliver a more concise document that could readily at a later stage be extended to include all 11 water uses without becoming too extensive. Only 3 water uses are addressed at this stage.
- 2.8 Water management strategies in the South African context should be developed from a sustainable development perspective and should support growth and job creation while protecting the water resource.
- 2.9 Implementation of the National Water Act has to be developed further and requires further training of personnel and establishment of water management institutions for full implementation.
- 2.10 The pricing strategy for Raw Water should target the largest impacts on water use and simplify implementation. Major delays are currently experienced with water use licensing processes and therefore no new systems should be implemented until the capacity to deal with current processes are dealt with.
- 2.11 The implementation of a waste discharge charges system should therefore be delayed.
- 2.12 Similarly, the management system for forestry should be reconsidered for equity, fairness (also see the specific comments on Section 6.3.1) and efficiency reasons.

2.13 BUSA believes that the implementation of this strategy in its current form and requests that a formal regulatory impact assessment be undertaken before finalisation.

### 3. SPECIFIC COMMENTS

#### Section 3 Objectives that Shape the Pricing Strategy

##### **Financial sustainability**

The concept of financial sustainability solely on the basis of raising sufficient revenue does not provide for efficient and effective use of resources. Although this approach was included in the previous strategy, the concept of according financial autonomy to catchment management agencies, has now been further developed. There is an assumption that achieving financial sustainability will result in an increase in prices. There is thus no reflection of the need to use resources effectively and efficiently.

BUSA believes that the majority of water users in the country cannot afford the full cost of water, which means that full cost recovery is not possible. In this respect, the section states that the new approach **may** be phased in taking account of constraints within various sectors, whereas the previous version said that the approach **would** be phased in taking account of constraints. This is a significant change in wording and it is important that phasing occur and that cognizance should be taken of affordability.

P 5 (2<sup>nd</sup> bullet) The “augmentation” schemes that need to be developed and financed should be clarified as to whether this is confined to new schemes.

##### **Economic efficiency**

The concept of using water pricing to redirect water allocation needs careful consideration. It is not clear how it will be ensured that management systems are cost effective. Cost effectiveness needs to be considered from the perspective of the user as well as the supplier.

Under Ecological Sustainability and International Obligations, it should be made clear that current and future (and / or adjusted) quantities allocated to ecological and international requirements will not be charged to current and future water users.

#### Section 4 Claims and Water not Subject to Pricing

It is not clear how the water uses referred to here are not subject to pricing. The first two categories of use are funded by cross subsidization in the water tariff at local authority level.

The result of these four categories not being subject to pricing results in a lower volume being used to calculate the unit cost of water thus automatically results in a higher unit cost.

## Section 5 Definitions of Water Use

- 3.1.1 The table as requested above will ensure that there is no double counting for the same activity, resulting in double charging for one activity that could constitute several water uses.
- 3.1.2 Clarity is again requested with regards to the applicability of charges i.r.t. the storage of water. Volumes are undefined, and hence is all stored water subject to a pricing charge? The National Water Resource Management Strategy compels the storage of water as a conservation technique, and the Pricing Strategy must be aligned with this principle. If charges are triggered in these instances, conservation initiatives under the NWRS could be discouraged.
- 3.1.3 Clarity is requested with regards to the application of charges pertaining to the storage of clean water as opposed to the storage of process water, mine water or buffer dams.
- 3.1.4 “*Abstraction related uses*” should be labeled “Consumption uses”. The reason is that the group includes SFRAs, which do not abstract water and should not be lumped with users that do abstract water when determining water use charges.
- 3.1.5 Clarity is required with regards to the pumping of mine water. Previously charges were only levied on pumped water to surface as per water license provisions. Will all underground water be considered to be stored water for the purposes of the application of charges?

## 3.2 Section 6 Funding of Water Resource Management

- 3.2.1 Current water resource management systems are inefficient and there is no immediate prospect of efficiency being improved through catchment management agencies. The situation where responsibilities are split between DWAF functions and CMA's are likely to exacerbate inefficiencies.

### 3.2.2 Budgeting of Activity Cost

The concept of setting a budget and then raising the cost to cover the budget is a matter for concern. It is not at all clear how costs will be allocated. Alternative management systems which could be more effective are not even considered. While it is recognized that this strategy is restricted to pricing, it is not possible to support a pricing system, which is not based on sustainable water resource management.

- 3.2.3 P 7 (last sentence): As agriculture will not be liable for waste discharge related costs in the foreseeable future a clear distinction between management effort pertaining to abstraction and waste discharge is necessary. The practical implications of this approach should be discussed with stakeholders.
- 3.2.4 Charges are based on registered volumes and not volumes actually used or discharged, as well as registered loads of salinity and phosphorous (6.4.2). Licensed water users should be incentivised to register actual water use with water requirement projections.
- 3.2.5 A concern is raised with regards to the proper understanding of a registered use. Is this a future forecasted demand in (assumed) 5 years from current date or the maximum demand forecasted for future 20 years or more? Clarity is required on the validity period (assumed to be 5 years) for the registered use and revision process.

- 3.2.6 With regards to abstraction there are no incentives in place currently to encourage efficient water use and reduction in abstraction volumes. Section 56 (3) (d) of the National Water Act (NWA) to a certain extent provides for “rebates for water returned to a water resource”. It is requested that some form of incentive or rebate system is put in place to encourage water users to abstract less water and reduce the registered volumes.
- 3.2.7 Section 6.1 5th paragraph. Cross-reference to Section 9.1 page 27 paragraph 7 last bullet. Concerning differing water resource management (WRM) and waste discharge charges due to different upstream and downstream water qualities and river quality objectives. The upstream WMA / catchment management agency (CMA) must reimburse the downstream for additional water quality management costs. The upstream discharges must pay to meet the downstream requirements. Will there be any guarantee of price reduction or reimbursement to downstream water users abstracting the more “contaminated” water?
- 3.2.8 Section 6.3. The WRM charge is related to volumes. As raw water quality is deteriorating, it may be required to abstract additional water to meet internal process water quality objectives. Consideration should be given to increased abstraction under these circumstances. How is this addressed in the water pricing strategy?
- 3.2.9 Table 6.2, row 7 designated “institutional development” should read: “Water related institutional development”

Row 8 indicates that the cost of water weed control should be split equally between abstraction and waste discharge activities. This is not logical since an increase in concentration as a result of abstraction is being equated to an increase in concentration as a result of additional load. Increasing the load has a far greater effort.

Table 6.2, row 9 activities should be clear on: Terrestrial Invasive Alien Plants (IAP), only in so far as the extent to which it affects the water resources, especially insofar as water pricing is concerned.

Row 10 of the table ascribes groundwater and surface water monitoring costs to abstraction activities only. Monitoring of surface and groundwater is just as important for pollution control.

- 3.2.10 Section 6.3.1. The designation of sectors as SFRA's needs to be clarified for all potential sectors to eliminate the current discrimination against a single sector and to remove uncertainty from additional potential sectors.
- 3.2.11 There are still several unregistered users and dischargers – allowance must be made in the schedules proposed for the registration and consideration of these users.
- 3.2.12 Consideration should be given, with cross-reference to privately funded augmentation schemes, to reduced charges and increased assurance of supply. (i.e. an additional fee can not be charged where the assurance of supply has been “bought” by a dedicated augmentation scheme).
- 3.2.13 “The activity input cost regarding an inter WMA transfer will be allocated only to those sectors that benefit through water allocations in the receiver WMA”. Agriculture for example currently enjoys only 91% assurance of supply but will have to pay on the basis of 98% assurance of supply.

- 3.2.14 A new concept of “assurance of availability” has been introduced, based on the estimated long-term average annual volumetric use. The difference between assurance of availability and assurance of supply needs to be clarified. In addition, the relationship between these estimates and the 98% assurance of supply used as a standard in the NWRS needs to be explained.
- 3.2.15 Section 6.3.3. In the last paragraph, the words “the volume of registered sectoral water use” should read “the total volume of registered sectoral water uses”. All quantities related to the allocations described in Section 4 should be subtracted from the available water and this aspect should be clearly indicated here.
- 3.2.16 Section 6.3.4. All costs related to the allocations described in Section 4 should be funded from the National Treasury as is indicated for basic human needs in the current draft and should not be subsidized by any other use.

Regarding SFRA's, the inequity of the current system is reflected in the difficulty of calculating assurance for this use.

- 3.2.17 Section 6.3.5. Monitoring currently refers to quantity and not quality. It is recommended that quality is also monitored to ensure that, whilst water quantity is maintained, it is of the required quality for extraction. If not, this will lead to point 3.2.4 raised above.
- 3.2.18 Section 6.3.6. The importance of water users being able to follow how water resource management charges are calculated, cannot be overemphasized. The working of this section is critical to transparency and an adequate level of communication has **not** been achieved. For example, to make sense of the first sentence, the words “Unit sectoral water resource management charges” should read “The unit cost of an activity under water resource management charges”.

In the last paragraph, we again make the point that non-viable institutions cannot be made viable by increasing the water charges above the ability of water users to pay. The affordability of services must be taken into consideration.

- 3.2.19 “Higher real prices” implies increases higher than inflation, which may not be justifiable.
- 3.2.20 Irrigation is not a “Point source discharge”. Calculation of the cost allocation in this regard therefore needs careful consideration.
- 3.2.21 The calculation of the irrigation cap needs to be motivated in order for a meaningful response to be prepared.
- 3.2.22 If the licence fees are increased, will this result in a reduction in the water resource management charge?
- 3.2.23 Section 6.4.2. As with point 3.2.1 above, there is a lack of incentive for water users to reduce the registered discharge waste load of salinity and phosphorous. Reduction should be encouraged to address point source pollution efficiently.

- 3.2.24 Section 6.5.6. Once CMAs are performing the licensing function, will the Licence Application Advisory Committees (LAACs) have to be restructured with one for each water management area? BUSA urges a review of this approach as it would be strongly opposed to this as it would create an untenable meeting situation which cannot be afforded both in terms of time and cost.
- 3.2.25 Section 6.5.7 Invasive Alien vegetation removal should be a short-term process, on completion of which no further charges, or a small maintenance charge, can be applied. This should be specified, and it must be ensured that the removal option is effective in the long-term. Control hereof is now efficiently provided in the Biodiversity Act and the Protected Areas Act.
- 3.2.26 There must be equitable charges of costs reflecting associated benefits to individual users affected within the area to be cleared.
- 3.2.27 Alignment with other water conservation, biodiversity and regional / provincial development plans is also required.

### 3.3 Section 7 Funding of Water resource Development

- 3.3.1 The sentence starting with “Capital expenditure”, must be supplemented with the following underlined words:

Capital expenditure related to the promoting of equitable access to water, meeting current and future international obligations and providing for the current and future needs of the reserve or aquatic ecosystem will be State funded. Dam safety betterments on State owned dams will be State funded.

- 3.3.2 Section 7.1.3. Concern is raised with regards to the 1st paragraph after the box in. Why should return on assets (ROA) charges on “off-budget projects be directed towards recovering the annual capital cost required for State funded social projects”? Should this not rather read: “ROA charge is applicable to State funded and owned assets for as long as they exist in an operable condition”?
- 3.3.3 As previously highlighted, the idea that ROA will be charged as soon as assets are donated to DWAF after loan repayment is still not considered acceptable.
- 3.3.4 Paragraph 2: dam safety betterments come from State funding (section 7.1) and not ROA charges.
- 3.3.5 Paragraph 3: ROA charges will not be imposed during the loan repayment periods for off-budget schemes. Yet, in section 7.1.5 betterment charges may be levied by DWAF on off-budget schemes post construction. Clarity is required as betterment charges are collected as ROA.
- 3.3.6 Section 7.1.4 is a new addition and requires some degree of consolidation.
- 3.3.7 Section 7.1.7. Please add “social schemes” to the Glossary for definition. Does this refer to social Government funded water schemes?
- 3.3.8 ROA will be applicable for new government schemes constructed for established commercial farmers. How will this be applied to new entrants?

- 3.3.9 How will the capping of depreciation be determined?
- 3.3.10 How will depreciation charges be applied to “Resource poor” farmers after 5 years?
- 3.3.11 It is not clear how ring fencing is possible within the state financial regulations.
- 3.4 Section 8 Economic Charges
- 3.4.1 Last paragraph. As previously requested, further clarification is required regarding the annual charge, and limits for this charge are recommended.
- 3.5 Section 9 The Waste Discharge Charge System
- 3.5.1 Section 9.1. 4th paragraph. Specification is requested with regards to which body will manage the implementation of the waste discharge charge system (WDCS) in the small catchments.
- 3.5.2 Section 9.2.1 1st paragraph. The reference to the NWA Section 56 (2) is inappropriate here as the WDCS incentive charge is not related to the “... efficient allocation of water”.
- 3.5.3 The NWA is very specific in section 57 (5) to ensure that the Minister is not granted the powers to institute a tax, a levy or a duty. BUSA strongly supports the retention of this section unchanged. BUSA does not support the levying of taxes by any other national department other than the National Treasury.
- 3.5.4 Section 9.2.2. The purpose of the incentive charge is to encourage water users to internalise costs to reduce environmental impacts. The average unit cost per unit reduction as specified by the incentive charge to meet the river quality objectives (RQO) is aimed at the main registered sources. A question is raised with regards to which waste load reduction technologies would be considered acceptable by DWAF, for example: best available technologies, best available technologies zero impact, best available technologies not exceeding excess cost? Minimum standards are suggested, but on what will these be based? Capital expenditure will be required to reduce waste discharges to meet the still to be determined RQO, and several years lead time is required for budgeting and construction purposes. Whilst industry can work towards reducing waste loads prior to the establishment of the RQO, it is difficult to judge the extent of the required improvement without this information.
- 3.5.5 If the intention is to establish standards subsequently, we would recommend and welcome a consultative process in this regard.
- 3.5.6 Section 9.2.3. BUSA views the incentive charge as potentially yet another municipal tax. Pursuit of this concept thus requires careful consideration.
- 3.5.7 Section 9.2.4. Charges collected in a catchment must be used in that catchment.
- 3.5.8 Section 9.3.4. Some explanation is required concerning the sentence “The CMA may not be the implementing agent for the measure”.

### 3.6 Section 10 Application of PS to different categories of water use

- 3.6.1 Please ensure that all abbreviations used in Table 10.1 are listed in front (eg GWS, WMI)
- 3.6.2 “Natural Disasters”. The co-ordination amongst state departments in this regard needs to be given attention.
- 3.6.3 Cost recovery will be implemented through this strategy. It is not clear why irrigation should pay a higher premium if water is available.
- 3.6.4 Please provide the expected timeframe with regards to the annual increase on the development charge.
- 3.6.5 Section 10.2.2. The possible relief in terms of charges after fires and floods (section 10.2.1.) is welcome but it is not clear why SFR water users have been excluded from relief after droughts. The relief is restricted to irrigators. The loss of a long rotation tree crop in a drought is a lot more severe than the loss of an annual irrigated crop. In the case of an emerging farmer who is an SFR water user, there is little chance of recovery without assistance. Forestry therefore strongly requests to also receive relief in terms of ‘Drought’.

### 3.7 Section 11

- 3.7.1 The section on transparency and accountability has been seriously diluted. There is no possibility of transparency or accountability if information on expenditure is not provided. The whole process just becomes a *de facto* licence to tax and this is not acceptable.

### 3.8 Section 12 Implementation

Prior to the full implementation of the WPS and the WDCS, many pre-requisites are required. This is in-line with the strategic objectives set out in the National Water Act, and the objectives of the WPS and WDCS.

Issues that need to have received attention prior to implementation:

- The Reserve and water allocation per water use;
- Established CMA's in all areas with adequate capacity (otherwise DWAF need to carry the load);
- CMA strategies;
- Defined River Quality Objectives for each river and catchment area (including sub-catchments);
- All registered water uses and dischargers to be licensed and verified;
- The WARMS system requires establishment
- Money Bill to handle the charges and ensure they are ring fenced for effective water resource management and development.
- Piloting of the WDCS

Whilst some time frames are provided in Section 12, for budgeting purposes Business requires a greater degree of clarity as to when the actual charges will be available prior to the following new financial year. For the calculation of strategic growth and associated costs, again industries and mines require long-term costs as soon as possible.

## 4. CONCLUSION

BUSA looks forward to further interaction with DWAF on the raw water pricing strategy, and in particular requests feedback on point raised where possible.