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Department:
Water and Sanitation
REPUBLIC OF SOUTH AFRICA



PUBLIC CONSULTATION ON

REVISED DRAFT NATIONAL PRICING STRATEGY FOR RAW WATER USE CHARGES

PRESENTED BY: DEPARTMENT OF WATER AND SANITATION

PRESENTATION OUTLINE



- Legislative Framework
- Background of the revision process
- Objectives of the Pricing Strategy
- Water value chain
- Water use not subject to pricing
- Principles of the Pricing strategy
- Categories of water uses
- Water resource management activities
- Water resource infrastructure charges
- Changes in the revised pricing strategy
- Summary of the application of charges
- Implementation of the Pricing Strategy
- Public Consultation and approval process

LEGISLATIVE FRAMEWORK



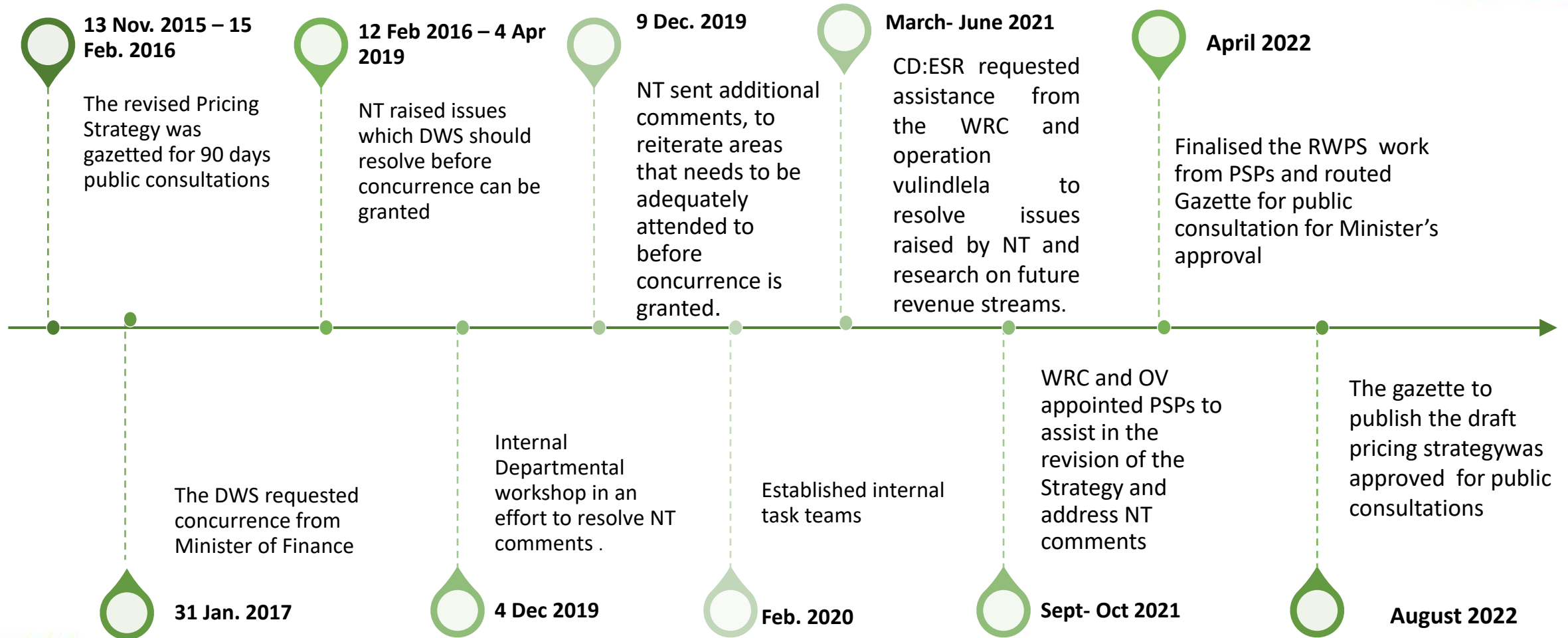
Section 56 – 60 of the National Water Act, requires DWS to establish a pricing strategy for raw water charges.

Raw water Pricing Strategy was first developed in November 1999.

Revised Strategy was approved for implementation with effective from April 2007.

The water Research Levy is determined according to Section 11 of the Water Research Act.

BACKGROUND ON THE REVISION PROCESS



BACKGROUND ON THE REVISION PROCESS



Topic	Purpose
Public interest functions	Provide a clear definition, classification and quantification of all Public Interest Functions within the Department
Cross subsidisation and concessions	Provide clear methodology for determining policies for cross-subsidies and concessions to different users. Should the caps be removed, there should be clarity on who will be bearing the cost of capping to the beneficiaries.
Project classification for social and commercial schemes.	Provide definitions for the classification of a project (social or commercial) within RWPS, supported by a framework or policy that clearly outlines how the department classifies social and commercial projects for all water resource infrastructure and not only Regional Bulk Infrastructure Grant (RBIG). This should be a framework for decisions that informs the Minister's discretion.



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BACKGROUND ON THE REVISION PROCESS

Topic	Purpose
Future Infrastructure Build Charge (FIBC):	Provide details for the accountability mechanism and clear financial information for FIBC. .Clearly outline the funding mandate of the FIBC and which portion shall be funded from the fiscus.
Waste discharge charge (WDC) being effective	Work towards the finalisation and implementation of the Waste Discharge Charge System within the Revised Raw Water Pricing Strategy.

BACKGROUND ON THE REVISION PROCESS



- ✓ The Pricing Strategy provides the pricing framework for the use of raw (untreated) water from the water resource and/or supplied from government waterworks and the discharge of water into a water resource or onto land.
- ✓ The pricing strategy seeks to facilitate reform in the sector as well as to provide transparency and predictability to water user on how water will be priced.
- ✓ It is intended to support the achievement of the goal, as articulated in the National Water Resource Strategy: that water is efficiently and effectively managed for equitable, sustainable growth and development.

OBJECTIVES OF THE REVISED PRICING STRATEGY



- ✓ Ensure that the costs of achieving and maintaining Resource Quality Objectives (RQOs) are sufficiently recovered through water use charges
- ✓ Ensure that there is adequate funding for the effective operation, maintenance and development of waterworks
- ✓ Provide an enabling framework for the provision of financial assistance and the use of water pricing to support the –
 - Redress of racial and gender imbalances in access to water
 - Redistribution of water for transformation and equity purposes
- ✓ Facilitate financial sustainability of water management institutions
- ✓ Better represent the water user groups and allow for more clearly targeted charges.



PRINCIPLES OF WATER PRICING



1. Hybrid tariff approach

Combination of nationally and water management specific charges to facilitate the development of affordable tariffs to all users.

2. User pays and recovery of costs

The intent of the pricing strategy is to provide for the full recovery of costs associated with the management, use, conservation and development of water resources and the associated administrative and institutional costs.

3. Polluter pays to recover the costs

The cost of treating water discharge and pollution must be recovered from users who discharge and impact or threaten Resource Quality Objectives.

4. Differential charges of water use

The strategy allows for differential charges to designated water use categories to support the achievement of key national objectives, such as food security, racial and gender equity, job creation and economic development.

5. Ecological sustainability

Facilitate funding to ensure the provision of water for the ecological reserve and the water sector's contribution to maintaining water ecosystems. NWA S56(6)(a) consider the class and resource quality objectives for different water resources.

6. Accountability and governance

Funds are managed transparently, and water resource services and development are undertaken in a cost effective and efficient manner to ensure affordable charges

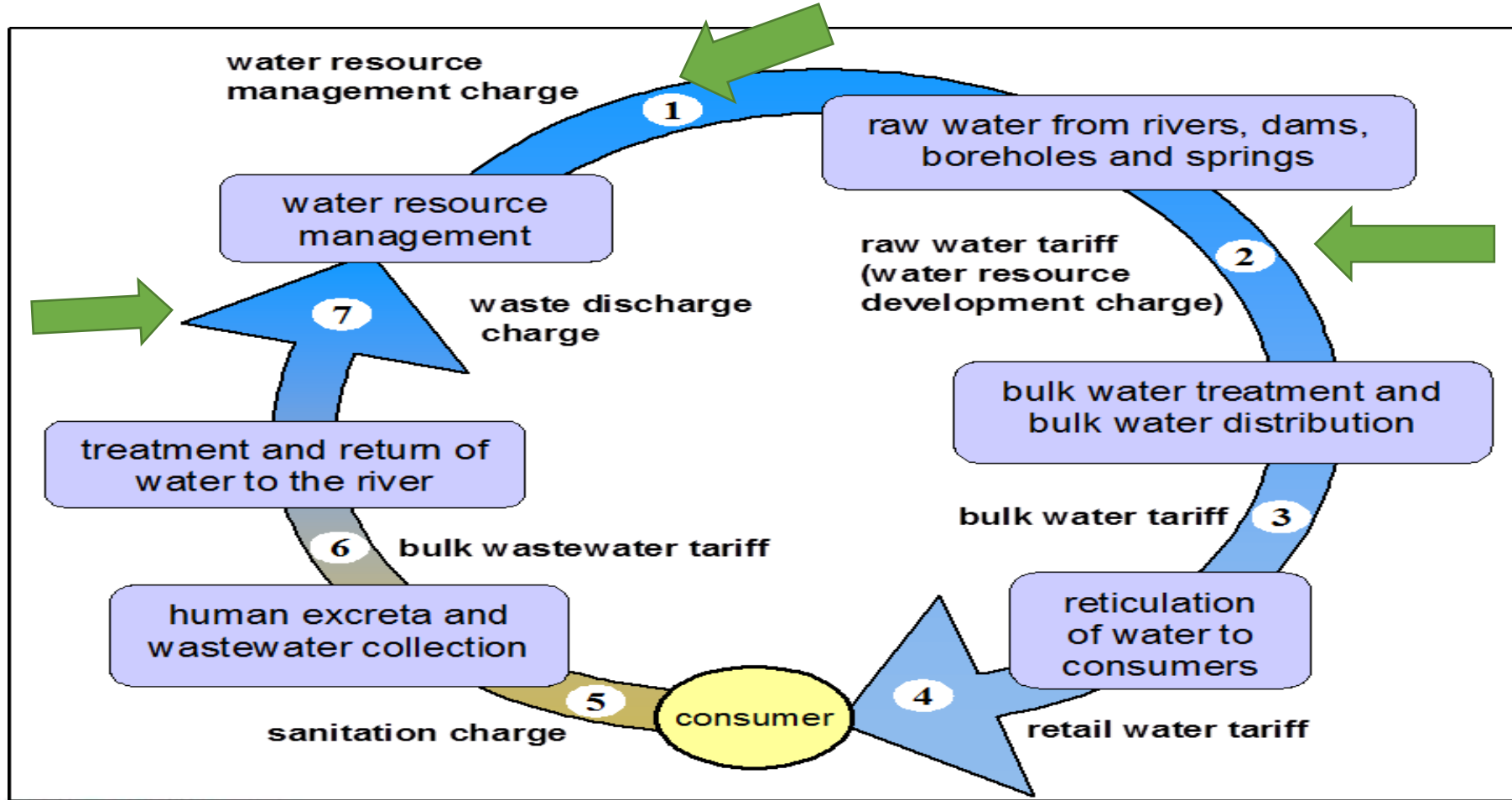
7. Multi year tariff

Provides multi year tariff determination to facilitate longer term planning and greater levels of certainty for water institutions and users.

THE WATER VALUE CHAIN



The Pricing Strategy for Raw Water Use Charges focuses on water resource management charges (1) that include waste related activities, water resource development/infrastructure charge (2) and waste discharge charge (mitigation charge) (7).



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CATEGORIES OF WATER USES



Three categories of water uses

Water use described in section 21(a) to (k)

Abstraction use

- a) taking water from a water resource
- b) storing water
- d) engaging in a stream flow reduction activity (i.e. land-based activities which significantly reduce stream flow);

Waste discharge use

- e) engaging in a controlled activity identified as such in section 37(1) or declared in section 38(c)(1)
- f) discharging waste or water containing waste into a water resource;
- g) disposing of waste in a manner which may detrimentally impact on a water resource;
- h) disposing of water which contains waste from any industrial or power generation process;

Non-consumptive

- c) impeding or diverting the flow in a watercourse
- e) engaging in a controlled activity
- i) altering the bed, banks, course or characteristics of a watercourse;
- k) using water for recreational purposes.



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WATER RESOURCE MANAGEMENT ACTIVITIES



Functions/Activity

1. Catchment management strategy and water resources planning

2. Resource directed measures

3. Water use authorization

4. Compliance Monitoring and enforcement of water use

5. Disaster management/ Pollution control and emergency incidents

6. Water Resource Management Programmes

7. Water related institutional development (Stakeholder Management empowerment)

8. River health (Water weed control)

9. Maintenance and Restoration of Ecosystems to improve water resources

10. Geo-hydrology and hydrology

11. Administration & Overheads



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WATER RESOURCE INFRASTRUCTURE CHARGES



O&M

Operations and Maintenance Charge recovered on a scheme or system basis, it includes fixed and variable

Dep

Depreciation component for the purposes of funding refurbishment cost

FIBC

Future Infrastructure Build Charge for purpose of funding social and economic development stimulus water resource infrastructure

CUC

Capital unit charge to fund government water schemes off-budget ,in order to raise loans to finance the development of new infrastructure and service the loans through cost recovery.



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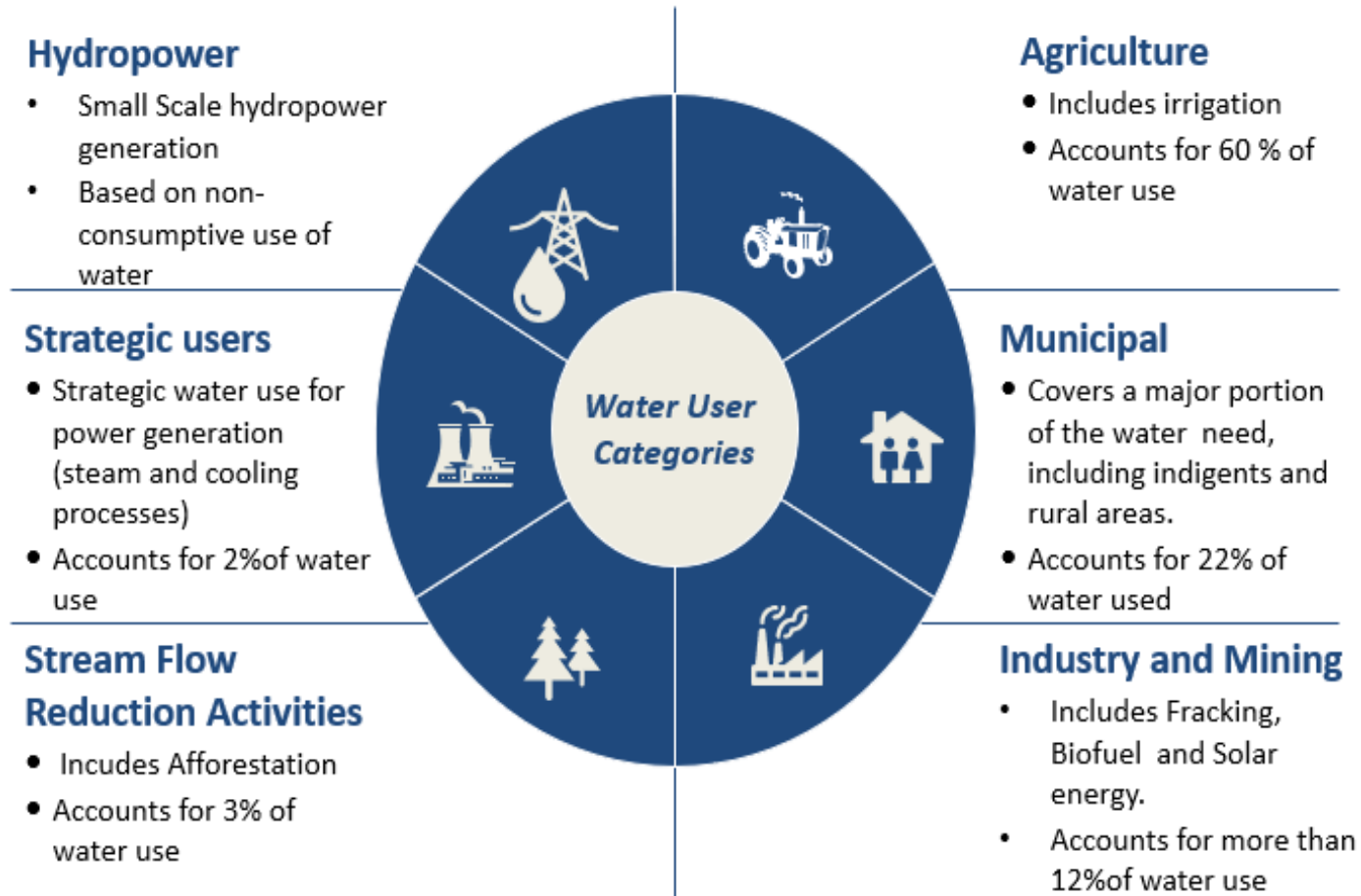
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2. Changes To The Water User Categories

2007 Pricing Strategy

- ✓ Domestic & Industrial
- ✓ Irrigation (Agriculture)
- ✓ Stream Flow Reduction Activities (Forestry)

Revised draft of the Pricing Strategy



1. Categories Of Charges

2007 Pricing Strategy

- ✓ Water resource management Charge
- ✓ Water resource development charge
- ✓ Water Research Levy

Revised draft of the Pricing Strategy



Water Resources Management Charges

Cover the charges required to manage water resources and waste discharge within the nine water management areas determined in the NWRS-2 - Section 21 of NWA

Water Resources Infrastructure Charges

Charges relating to the development and use of waterworks, covering charges related to planning, capital costs, operation and maintenance, depreciation, and future infrastructure build on government water schemes. – Section 56 (2)(b) of National Water Act

Waste Mitigation Charge

Charges which cover the charging for discharge of water containing waste into a water resource or onto land – Section 56 (5) of National Water Act

Water research Levy

Paid into a national Water Research Fund and used by the (WRC) to fund water-centred Research and Development for South Africa. - Water Research Act (WRA) Section 11 and 12.

Economic Regulation Charges

Charges intended to fund the activities of the Economic Regulator – introduced in National Water Amendment Bill



3. Changes To The Water Use Charges

Economic Regulator Charge: Introduces an Economic Regulator Charge that is intended to fund the activities of the Economic Regulator

- ✓ Institutional arrangements for Economic Regulator are still to be finalized
- ✓ NDP and NWRS2 supports a transition to an independent regulator
- ✓ Best practice warrants independent funding for regulator

Hydro Power Charge: Will be levied on all existing and new hydropower plants

- ✓ Proposed charges for hydropower generation will be based on
 - a combination of a fixed charge on installed generation capacity, and a variable charge based on power generated.
 - Applies to all small systems with 1 to 15 MW capacity.
 - Greater than 15 MW capacity is considered to be commercial.

Waste Mitigation Charge: Facilitates the recovery of costs to mitigate the impacts of waste discharge on surface water resources.

- ✓ Charged to registered water users discharging waste in the impacted catchments.
- ✓ Dependent on net waste load (load in discharge, less load in intake) in the return flows.

4. Water Resource Infrastructure Charge

2007 Pricing Strategy

- ✓ Return On Assets Charge
 - System or Scheme based tariff
 - Determined by fixing a charge (4%) to earn a specific ROA on the current DRV of the infrastructure
 - Off-budget schemes, the charge will not be imposed during the repayment periods of the loan
 - Asset values will be inflated by the PPI of April each year to determine the nominal values of capital costs for pricing purposes
 - Water Resource Development Charge (WRDC) to be charged on off-budget schemes once the loan has been repaid
 - Agriculture – only for new schemes

Revised draft of the Pricing Strategy

- ✓ Future Infrastructure Build Charge
 - A national charge
 - It is unrelated to the value of assets and is determined at an amount to meet the investment requirements of social and development facilitating infrastructure.
 - All users, including those paying the CUC should be required to pay the FIBC.
 - Based on the annualised costs of the Department's 10-year Investment requirements as per the investment framework and National Water and Sanitation Master Plan.



5. Price Capping

2007 Pricing Strategy

	WRM Charge	WRI Charge	Comments
Domestic & Industrial	-	Increases \leq PPI + 10%	Until full cost recovery is reached
Agricultural sector	≤ 1.5 c/m ³ Adjusted annually by PPI (1.5 c/m ³ based on 2007/08)	O&M increases $\leq 50\%$ Depr ≤ 1.5 c/m ³ Adjusted annually from 2007/08	Until full cost recovery is reached
Forestry sector	R 10/ha+PPI (basis yr: 2002/3)		Approximately Averaging 1.5 c/m ³

Revised draft of the Pricing Strategy

- ✓ The revenue loss due to capping is approximately R1,3 Bill per annum, which does not encourage self-sustainability of water management institutions.
 - The price capping which were previously afforded to different user categories are removed
 - The charges will be phased out gradually to reach full cost over a period of between 5 to 10 years



6. Concessions To Resource Poor Farmers/Foresters from 2007 pricing strategy

2007 Pricing Strategy

- ✓ O&M charges phase in 5 years after registration at 20% per annum with 0% in the first year.
- ✓ Depreciation applied from year 6 onwards and capped at 1.5 c/m³ plus PPI from 2007/8
- ✓ Water Resource Management charges phase in over 5 years at 20% per annum with 0% in the first year.

Revised draft Pricing Strategy

- ✓ Resource Poor Farmer and Resource Poor Forester (RPF) subsidy will be retained as per section 61-62 of the NWA.
- ✓ Users who wish to benefit from RPF policy should apply for approval once water use authorisations
- ✓ The RPF subsidy will be phased in over 10-year period from the date of registration of the water use, with no charge imposed for the first five (5) years
- ✓ Phasing in of the Raw Water Use Charges as of Year 6 at 20% per year until it reach full charge.

CHANGES FROM PREVIOUS VERSION PRICING STRATEGY



Sectors		Water Resources Management Charge	Water Resources Infrastructure Charge	Waste Discharge Mitigation Charge	WRC Charge	Economic Regulation Charge (Future)
	Municipal	YES	YES	YES	YES	YES
	Industry and Mining	YES	YES	YES	YES	YES
	Strategic Users	YES	YES	YES	YES	YES
	Agriculture	YES	YES	YES	YES	YES
	Stream Flow Reduction Activities	YES	X	X	YES	YES
	Hydropower	YES	YES	YES	YES	YES



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✓ Effective date

- Gazette of the approved Pricing Strategy

✓ Multi-Year Charges

- Charges will be set for a period of three years.
- For the first three years, these charges will be reviewed annually on a rolling-three-year basis to ensure that the mechanisms and tools work effectively.
- In year four after the implementation of this strategy, the charges will be set for every three years.
- The water use charges must be approved on/ or before the 15th of September of every appropriate year.

✓ Treatment of Reserve Funds for Depreciation and FIBC

- The Department will manage the funds associated with depreciation and FIBC charges, within a dedicated reserve fund.
- When the reserve fund has been established ,the depreciation charge revenue may serve as a stabilization reserve for refurbishment .
- Use of depreciation funds will be prioritised in accordance with Department integrated water resource risk management systems, once a ring-fenced provision account for the FIBC revenue has been established

PUBLIC CONSULTATION AND APPROVAL PROCESS



✓ Revised draft of the Pricing Strategy was gazetted on 05 August 2022

Activities	Timelines
Public Consultation	September - November 2022
Updating of the final revised pricing strategy • Comments received from the stakeholders	November 2022
Consultation with National Treasury on updated Pricing Strategy • Updated version before request for concurrence	
Request approval and concurrence • Formal submission and letter	January 2023

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