



**PRICING IN THE WATER SECTOR
(RAW, BULK AND RETAIL)
LG PERSPECTIVE
INPUT FOR DISCUSSION
WSSLG 21 NOV 2006
BY
WILLIAM MORAKA**

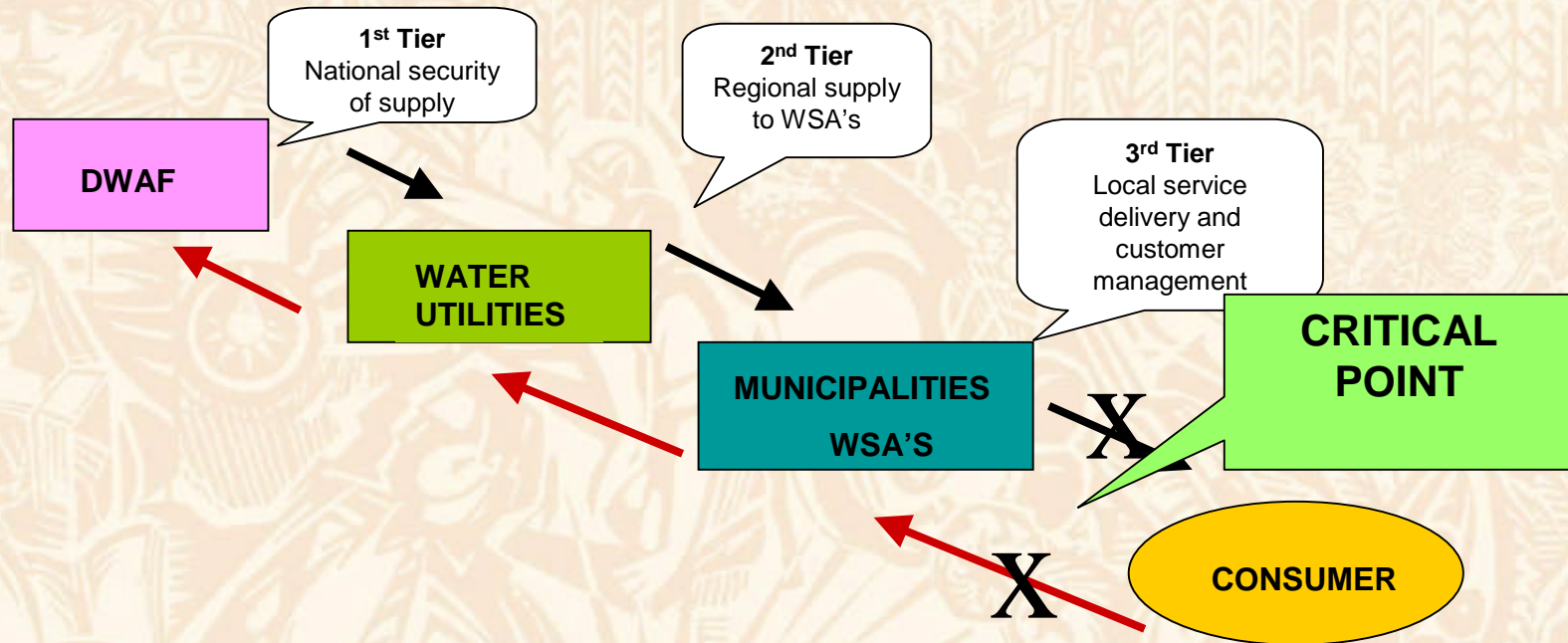


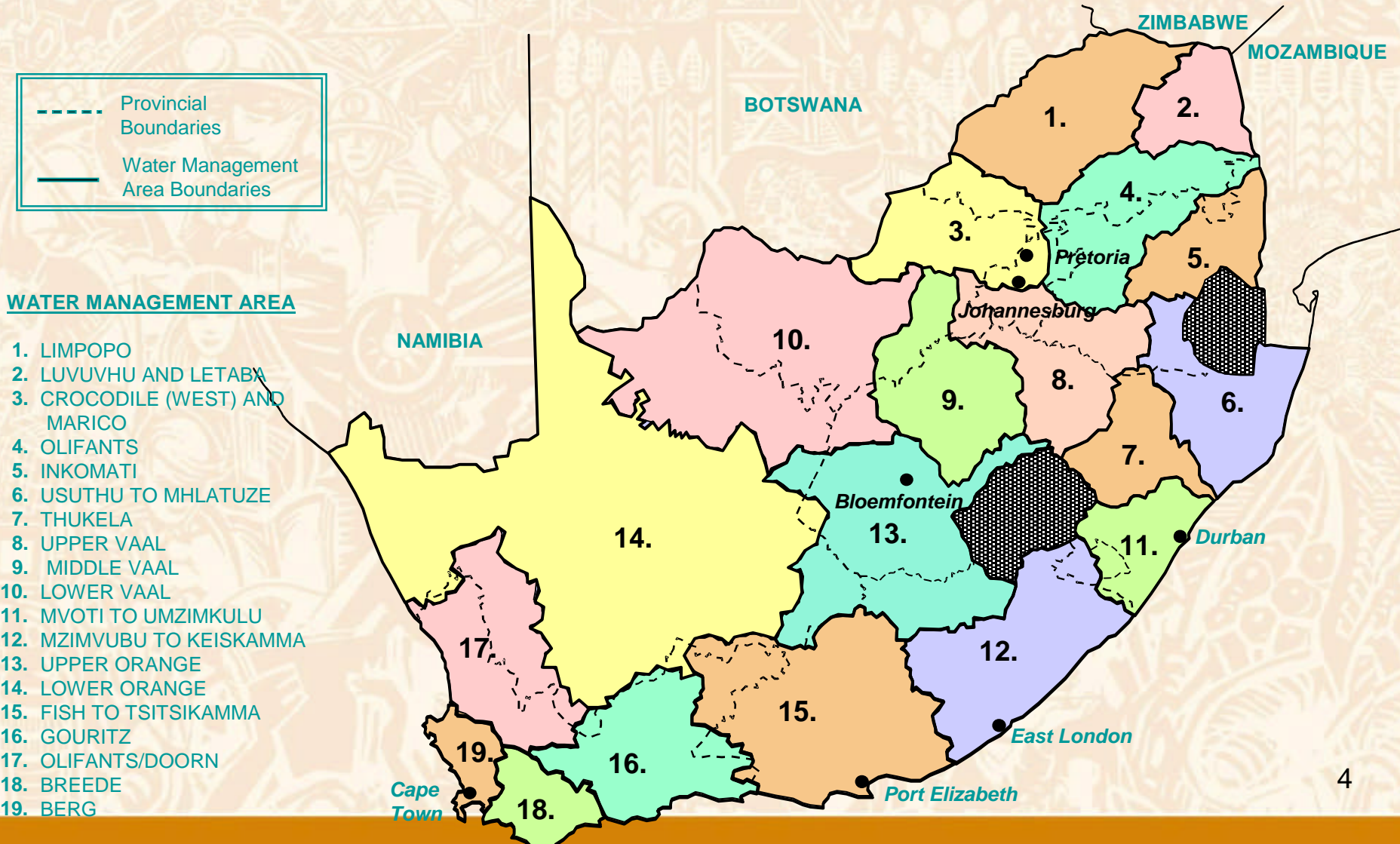
Structure of the presentation



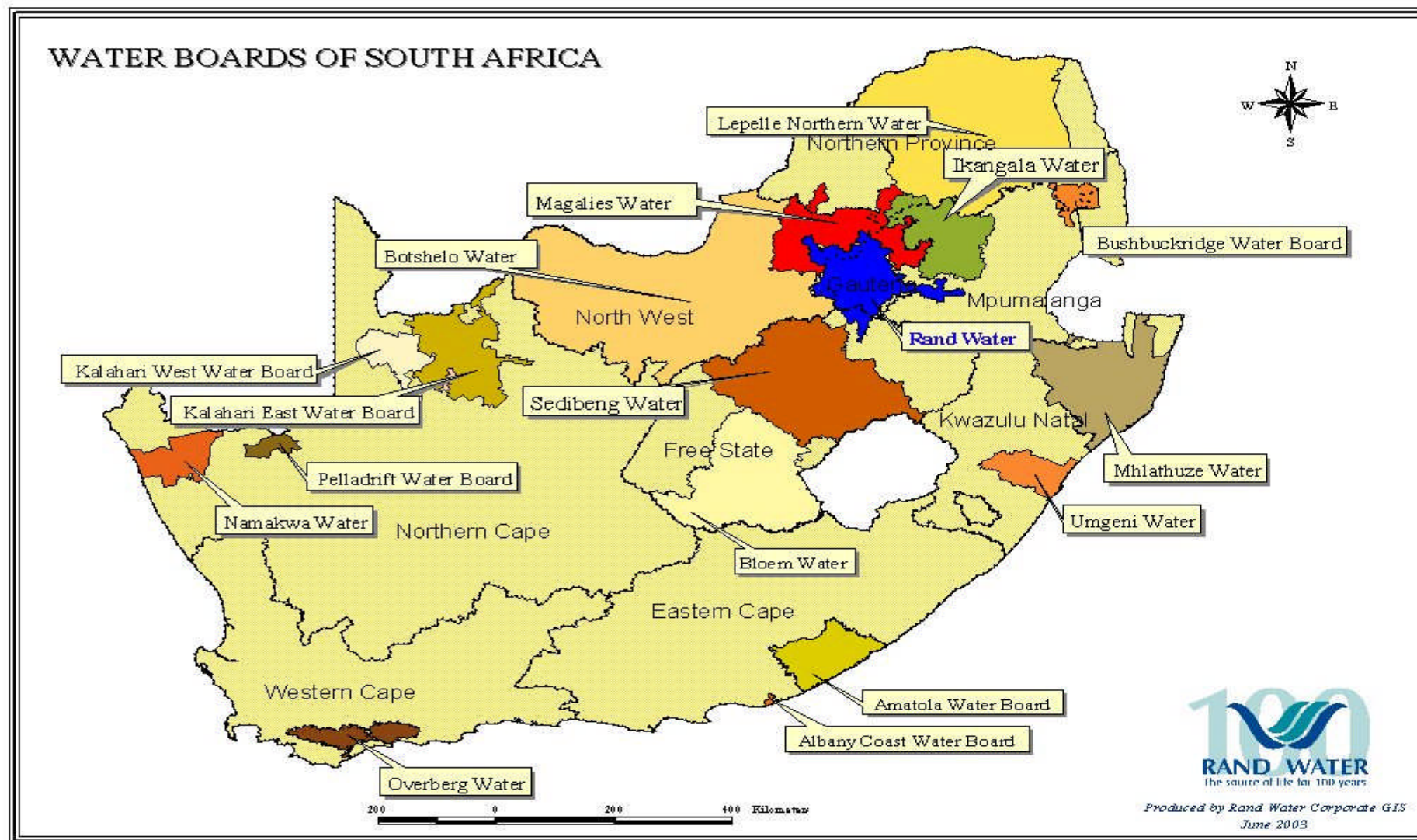
- Background
- Water Institutional Set up
- Water Pricing Chain
- Application of subsidies
- Way Forward

Overview of the South Water Chain

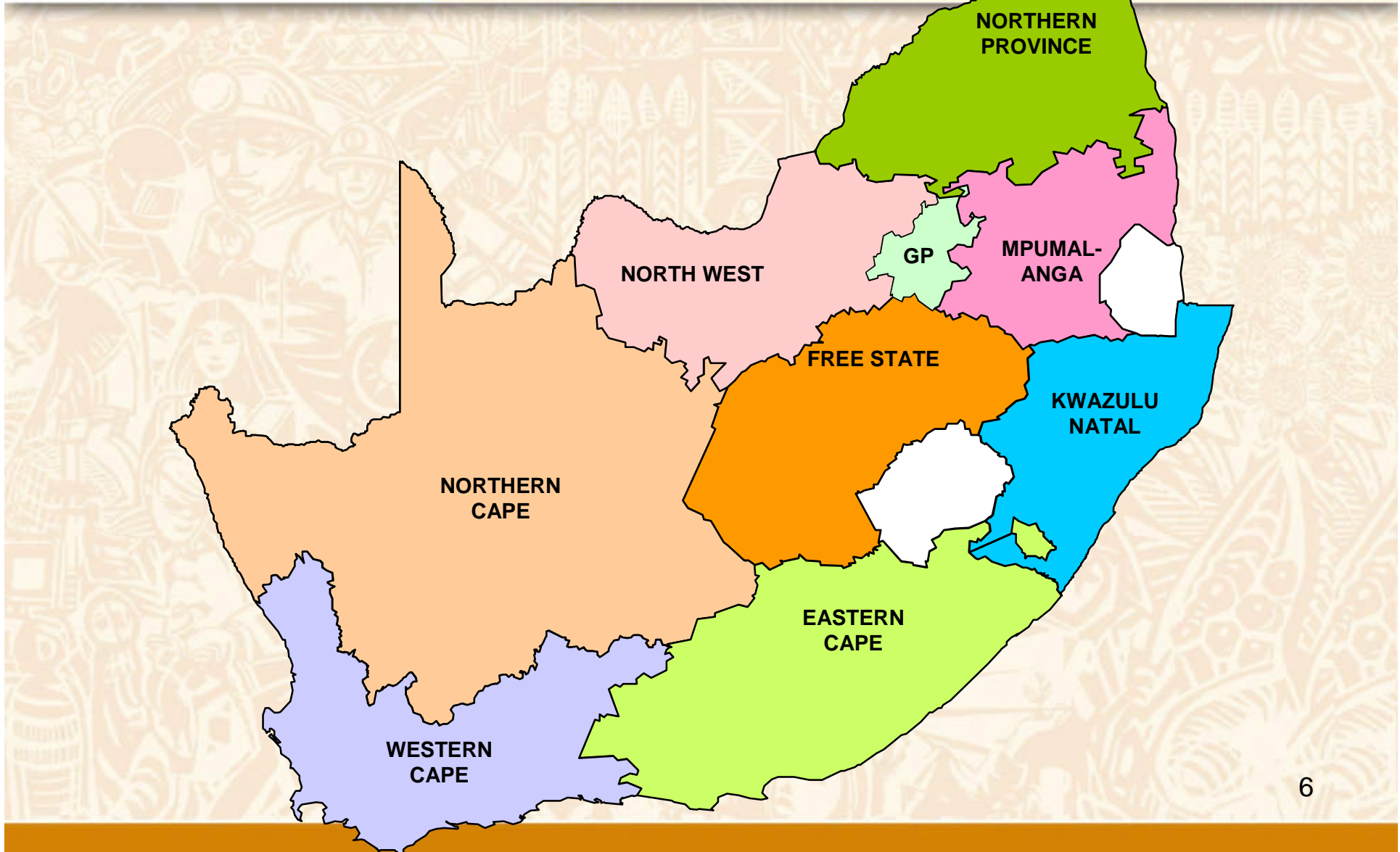




Area of Supply: Water Utilities in SA



Municipalities (WSAs)





The Star TUESDAY NOVEMBER 29 2005



The poor demand a better deal

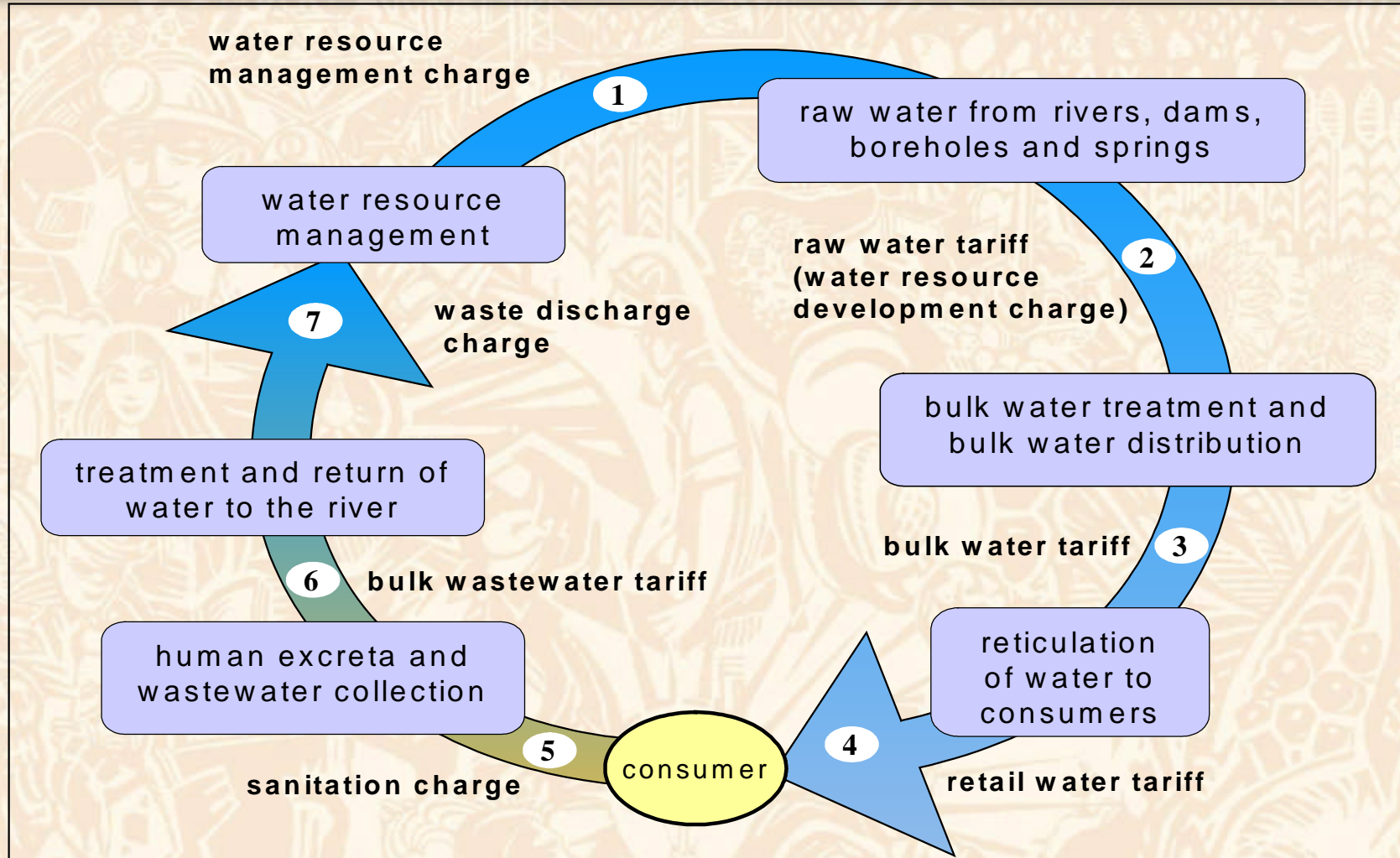
POPULAR UPRISING: The current rates of service delivery by the government has seen communities, such as those in Khutsong outside Carletonville, rising up in protest against what they see as gross mismanagement by their municipalities. **PICTURE:** THYS DALLAART



FACED WITH DELIVER CHALLENGES



The water pricing chain



Important points to note about the full pricing chain



1. At the end of the day, it is the consumer that “pays the price”. That is, all “upstream” prices impact on the consumer.
2. For this reason, the pricing chain should be viewed in totality to understand the impact of pricing on consumers.
3. For the sake of consistency, **the same principles and pricing methodologies should be applied throughout the value chain.**
4. Any **subsidies** should benefit end users (consumers) and hence are most appropriate when allocated at the retail end of the pricing chain (and not upstream).



- Notwithstanding the previous point, the way prices are set depend on the **governance arrangements** that apply along the chain. For example:
 - **DWAF** sets its raw water price in terms of a policy
 - **Water Boards** set bulk water prices in terms of the Water Services Act and prices are (in effect) approved by national government.
 - **Municipal** tariffs which are approved by local councillors in terms of a local tariff policy which must comply with nationally defined norms.

How can consistency be ensured in this context?

The issue of risk is
important ...



- The risks of selling water to a government institution are substantially less than selling water to individual consumers
 - Wherever feasible, **vertical integration (combining bulk and retail) is preferred** because this results in a much better allocation of risk. (This has been included in the institutional reform principles.)

Discussion: In context of separation of bulk and retail, bulk prices need to be regulated.

A return on assets?



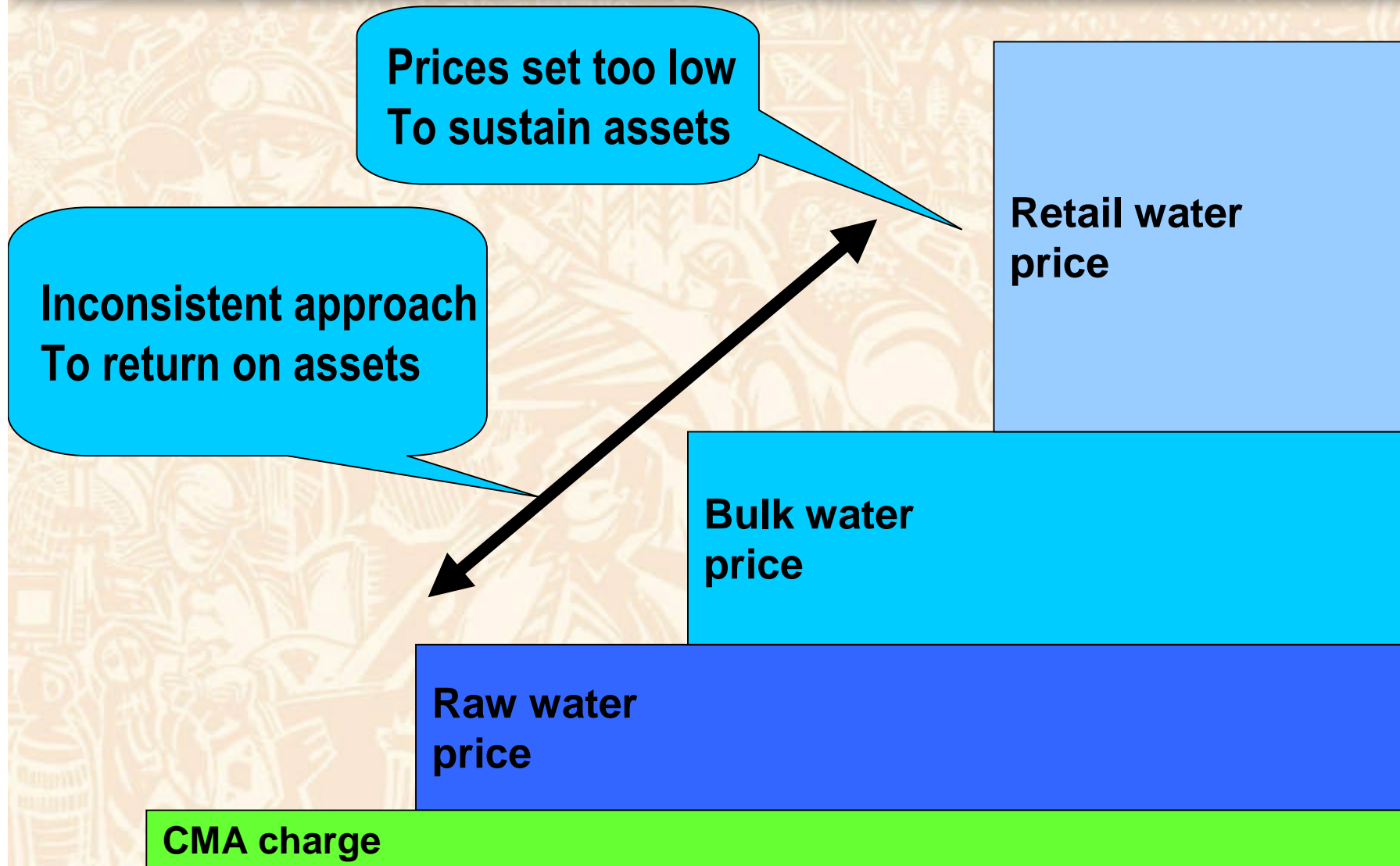
A return on assets ensures sustainability. **Consistency is important.** There should be a consistent approach to the return on assets along the value chain. (It is hard to argue on economic grounds that different rates of return on assets should apply to different parts of the water supply value chain.)

Discussion: At present, there is no consistent approach to return on assets along the value chain.

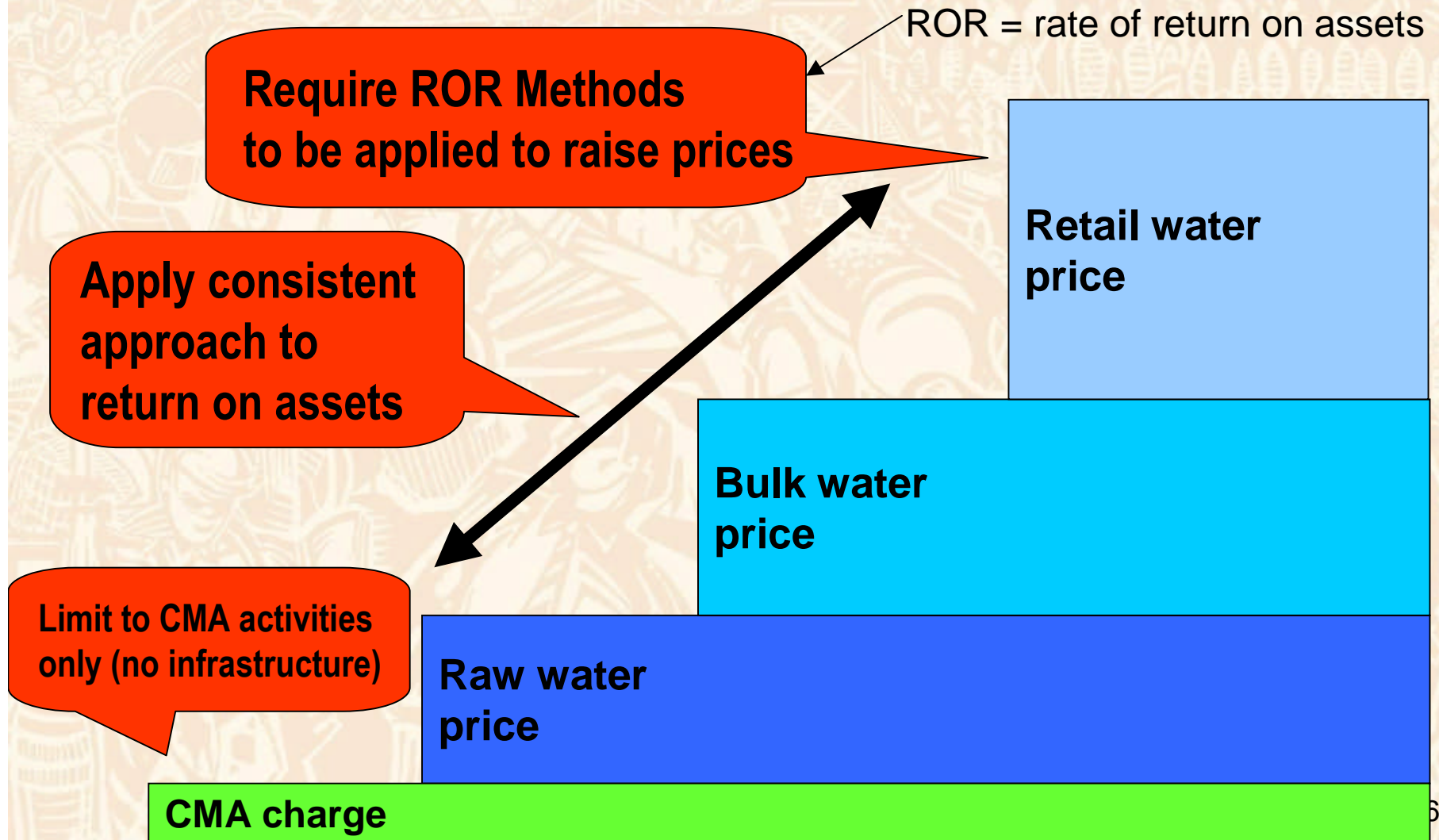


- In theory, the source of finance (grant or loan or private) should not affect the price. Prices should be determined based on a return on assets.
- In practice, prices are set to recover costs. In this case, there is often under-provision for depreciation. This is not sustainable.

Discussion: The key issue facing the sector is not access to finance, but the fact that water is unsustainably priced.



What needs to be done ...





Application of subsidies

Main subsidies



- **MIG**
 - a capital grant intended for basic services
- **ES**
 - to support O&M costs for basic services
- **Cross-subsidies**
 - Where these can be supported and are not too distortionary



For discussion

- **MIG**
 - Insufficient to take care of backlog in rehabilitation?
 - Application of subsidy too limited or restrictive?
- **ES**
 - Not guaranteed for water use?
 - Insufficient?
- **Cross-subsidies**
 - Unequal situations around the country result in unequal burdens (and benefits).



What the Strategic Framework says about each tariff in the value chain



Tariff / charge

Water resource management charge.
(Recovers the costs of water resources management.).

Responsibility for setting tariff

Catchment management agency in terms of National Water Act, or DWAF where there is not CMA.



Tariff / charge

Raw water tariff (water resource development charge).

(Recovers the infrastructure and operating costs of schemes.)

Responsibility for setting tariff

DWAF in terms of the national raw water pricing strategy and in consultation with water users including local government.



Tariff / charge

Bulk water and wastewater tariffs.
(Recovers the cost of conveying and treating bulk water and wastewater.)

Responsibility for setting tariff

Negotiation between water board and water services authority (or its appointed provider) in the case of a water board.

Water services authority where it undertakes bulk function itself, or by an entity owned by the water services authority.

Consultation between water services authority and external provider of service (for example, another municipality).



Tariff / charge

Retail water tariff and sanitation charges. (Includes the bulk water and wastewater tariff and recovers the retail costs.)

Responsibility for setting tariff

Water services authority in terms of the Water Services Act and Municipal Systems Act.



Tariff / charge

Responsibility for setting tariff

Waste discharge charge (proposed).
(A water resource charge based on the “polluter pays” principle.)

Catchment management agency in terms of National Water Act, in consultation with water users including local government.

DWAF where there is no CMA.



- “Appropriate financing structure for each WSA will be determined through the development of a financial plan as part of the WSDP
- DWAF, NT, SALGA and the dplg and other institutions will work together to design appropriate financial instruments and provide guidelines to WSAs for the development of financial plans
- **Have we given this support?**



- WSDPs and Business Plan
- Promotion of Integrated Planning (WR and WC)
- Design Appropriate financing structure for each WSA
- Water Demand and Conservation Strategies
- Tariff Policies (Raw, Bulk and Retail)
- Investment Policies

THANK YOU

