

## **Workshop agenda: Cost recovery**

**31 May – 1 June 2022**

The agenda is designed to facilitate knowledge sharing and capacity building across Member States. It builds on the background note on the same topic. The workshop is part of a series of four thematic workshops aimed to facilitate the implementation of the economics of the Water Framework Directive in European Member States. The workshop series is co-convened by the OECD and the European Commission's Directorate-General for Environment.

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## Cost Recovery Workshop agenda 31 May –1 June 2022

This thematic workshop is part of a series aimed to facilitate the implementation of the economics of the Water Framework Directive in European Member States. It is co-convened by the European Commission and the OECD and focusses on topics that can support decisions about the implementation of cost recovery.

The workshop will address the following topics in three distinct sessions. Member States will exchange their views, knowledge and experience on these topics.

### **Water pricing mechanisms**

- Adequate incentive pricing: what is an 'efficient' water-pricing mechanism (triggering efficient water uses), considering political issues related to pricing water and the limited elasticity of water use to price?
- Addressing affordability: what are the pros and cons of social measures vis-à-vis social tariffs?
- Depreciation methods: how depreciation might be 'flexed' in order to assist with financeability / cost recovery concerns?

### **Efficient (innovative) cost-recovery mechanisms**

- Charges on other pressures on water (beyond abstraction and pollution): should they be further exploited and how?
- How to unlock untapped sources of revenues to achieve cost recovery? Focus on Land-value capture.

### **How fit is cost recovery for the future?**

- Coherence across sectors: methodological and political economy issues that affect cost-recovery in practice.
- Which implications of the EU "Zero Pollution strategy" on cost recovery for water management?
- Can (or should) increasingly stringent environmental policies be financed through water bills or water-related charges?

Participants will address challenges faced by Member States, new developments in national or local policies. They will share good practices. A background note provides additional information for each topic and serves as basis for the discussion.

### ***Expected outputs from the workshop***

- Exchange of experience and knowledge on water-pricing mechanisms triggering efficient water uses and assisting with cost recovery concerns.
- Raised awareness of affordability issues related to cost recovery and ways to address them.
- Identification and dissemination of good practices and emerging approaches related to efficient and innovative cost recovery mechanisms, to unlock untapped sources of revenues.
- Reflection on cost recovery mechanisms for water management in the context of increasingly stringent environmental policies.

## Workshop structure

	<b>Day 1 (31 May)</b> 14:00-17:30 <i>Session 1</i>	<b>Day 2 (1 June)</b> 10:30-12:30 <i>Session 2</i>	<b>Day 2 (1 June)</b> 14:00 -16:00 <i>Session 3</i>
<b>Theme</b>	<b>Water-pricing mechanisms</b>	<b>Efficient (innovative) cost-recovery mechanisms</b>	<b>How fit is cost recovery for the future?</b>
<b>Topics</b>	<ul style="list-style-type: none"> <li>- Adequate incentive pricing: what is an 'efficient' water-pricing mechanism (triggering efficient water uses)? Which water uses are elastic to price?</li> <li>- Addressing affordability: social measures versus social tariffs?</li> <li>- Depreciation methods: how depreciation might be 'flexed' in order to assist with financeability / cost recovery concerns?</li> </ul>	<ul style="list-style-type: none"> <li>- Charges on other pressures on water (beyond abstraction and pollution): should they be further exploited and how?</li> <li>- How to unlock untapped sources of revenues to achieve cost recovery? Focus on Land value capture.</li> </ul>	<ul style="list-style-type: none"> <li>- Coherence across sectors: methodological and political economy issues that affect cost-recovery in practice.</li> <li>- Which implications of the EU "Zero Pollution Strategy" on the cost recovery for water management? Can (or should) increasingly stringent environmental policies be financed through water bills or water-related charges?</li> </ul>

## Session 1. Water-pricing mechanisms

The approach to water-pricing should consider multiple roles/objectives:

1. Consistency with the recovery of efficiently incurred costs, including capital expenditure (CAPEX), to the extent that it remains to be recovered from customers.
2. The financeability of future investment requirements: providing a robust basis upon which utilities can fund investments viewed as appropriate and desirable.
3. Efficiency incentives: providing incentives to deliver appropriate performance levels at efficient levels of cost over time.
4. Allowing for affordable, acceptable and equitable bills: while this can clearly raise broader social and political considerations, it is important to recognise the various implications that different tariffs setting approaches can potentially have in relation to these matters.

Methodologies to assess and recover costs have an impact on these objectives. Indeed, amongst the issues highlighted in the financial cost assessments by Member States are the implications of applying alternative accounting systems for capital cost, approaches to treating annual depreciation and the treatment of financial costs of multifunctional infrastructure. Particularly, the treatment of depreciation is a complex issue that varies among water utilities within and between Member States. The way depreciation is calculated and treated when assessing the financial costs can affect differently the cost recovery rates and the financeability of future developments. The choice of the appropriate method is particularly picky for assets financed through EU funds.

**Agenda: 31 May, 14:00 to 17:30**Moderator: [Paul Arnoldus, DG Environment, European Commission](#)

Time	Agenda item
14:00 – 14:10	<p><b>Opening of the session – 10'</b></p> <ul style="list-style-type: none"> <li>Bettina Doeser, <i>Head of DG ENV.C1 “Sustainable Freshwater Management,” European Commission</i></li> </ul>
14:10 – 15:10	<p><b><u>Adequate incentive pricing</u>: what is an ‘efficient’ water-pricing mechanism (triggering efficient water uses), considering political issues related to pricing water and the limited elasticity of water use to price?</b></p> <p><b>Keynote presentation</b></p> <ul style="list-style-type: none"> <li><a href="#">Marielle Montginoul, Research Director in Economy, National Research Institute of Science and Technology for Environment and Agriculture (Irstea), France</a></li> </ul> <p><b>Country presentations</b></p> <ul style="list-style-type: none"> <li>Sébastien Loubier, <i>Agence Rhône Méditerranée Corse, France</i></li> </ul> <p><b>Thematic discussion and next steps</b></p>
15:10 – 15:30	<b>Break</b>
15:30 – 16:15	<p><b><u>Addressing affordability</u>: what are the pros and cons of social measures vis-à-vis social tariffs?</b></p> <p><b>Keynote presentations</b></p> <ul style="list-style-type: none"> <li>Alexander Psomas, <i>Brilliant Solutions Engineering &amp; Consulting (BRiS)</i></li> <li><a href="#">Milo Fiasconaro, Executive Director at Aqua Publica Europea</a></li> </ul> <p><b>Thematic discussion and next steps</b></p>
16:15 – 17:15	<p><b><u>Depreciation methods</u>: How depreciation might be ‘flexed’ in order to assist with financeability / cost recovery concerns?</b></p> <p><b>Country presentations</b></p> <ul style="list-style-type: none"> <li><a href="#">Gheorghe Constantin, Director for Water Resources Management, Ministry of Environment, Water and Forests of Romania</a></li> </ul> <p><b>Comments</b></p> <ul style="list-style-type: none"> <li><a href="#">Tim Keyworth, Regulatory and Competition economist</a></li> </ul> <p><b>Thematic discussion and next steps</b></p>
17:15 – 17:30	<b>Conclusion and Wrap up (Moderator)</b>

## Session 2. Efficient (innovative) cost-recovery mechanisms

There is a range of options to harness various sources of finance for water projects. Widening the implementation of charges on (other) significant water uses and unlocking untapped (private) sources of finance through innovating funding arrangements can improve cost recovery for water services. Indeed, less than half of the Member states have put in place charges on significant water uses, other than water abstraction and polluting charges (taxes on pesticides and / or nitrates, water metering fees, etc.). Further dissemination of such instruments could be promoted. Furthermore, innovative funding arrangements are emerging and represent a significant potential for Member States to raise additional revenue for water management and internalise pressures on water bodies, resulting from abstraction or pollution. Several mechanisms are particularly promising in this respect, including Payments for Ecosystem Services (PES), Extended Producer Responsibility (EPR), or fiscal policies based on the Beneficiary Pays principle, such as land value capture mechanisms.

**Agenda: 1 June, 10:30 to 12:30**

**Moderator:** Paul Arnoldus, *DG Environment, European Commission*

Time	Agenda item
10:30 – 10:40	Opening of the session (Moderator)
10:40 – 11:40	<p><b><u>Charges on other pressures on water</u> (beyond abstraction and pollution): should they be further exploited and how?</b></p> <p>Keynote presentation</p> <ul style="list-style-type: none"> <li>• <a href="#">Gloria De Paoli, Environmental Economist, Acteon</a></li> </ul> <p>Thematic discussion and next steps</p>
11:40 – 12:20	<p><b>How to unlock <u>untapped sources of revenues</u> to achieve cost recovery? Focus on <u>Land value capture</u></b></p> <p>Keynote presentation</p> <ul style="list-style-type: none"> <li>• <a href="#">Andrés Fuentes Hutfilter, Head of Unit, Environmental Economics and Regional Outlook, OECD</a> and <a href="#">Matteo Schleicher, Policy Analyst, OECD</a></li> </ul> <p>Thematic discussion and next steps</p>
12:20 – 12:30	<p>Conclusion and Wrap up</p> <ul style="list-style-type: none"> <li>• Aude Farnault, <i>Policy Analyst, OECD Environment Directorate</i></li> </ul>

### Session 3. How fit is cost recovery for the future?

While Member States keep struggling to recover some of the costs of their programme of measures, it is clear that costs are likely to increase in the future, driven by the need to address the increasing investment backlog and such drivers as the need to adapt to a changing climate and more stringent environmental and health regulations supported by social expectations. It is not clear how these constraints can be reconciled in practice. What is the appropriate level of stringency for environmental policies? How much can water policy instruments support future costs? The point is not to question cost recovery as such, but to explore whether it remains practical in the emerging context in Europe.

Recovering the costs of programmes of measures through water bills or water-specific economic policy instruments could be questioned in terms of equity. Equity issues may have been masked when past investments benefitted from transfers from the international community. They may emerge more explicitly as communities face the burden of renewing granted assets or funding more stringent environmental and health policies in the future. This may tilt the discussion towards political and practical limits of raising tariffs (or water-related charges) and considering more substantial financial contributions from communities who generated the issues to be addressed through programmes of measures.

#### **Agenda: 1 June, 14:00 to 16:00**

**Moderator:** Xavier Leflaive, *Water Team Lead, OECD Environment Directorate*

Time	Agenda item
14:00 – 14:10	Opening of the session (Moderator)
14:10 – 14:50	<p><b>Coherence across sectors: methodological and political economy issues that affect cost-recovery in practice</b></p> <p>Country presentation</p> <ul style="list-style-type: none"> <li>• Josefina Maestu Unturbe, <i>Advisor to the Secretary of State for the Environment, Spain</i></li> </ul> <p>Thematic discussion and next steps</p>
14:50 – 15:50	<p>Which implications of the <u>zero pollution strategy</u> on cost recovery for water management? Can (or should) <u>increasingly stringent environmental policies</u> be financed through water bills or water-related charges?</p> <p>Presentations</p> <ul style="list-style-type: none"> <li>• <a href="#">Stephen White, DG Environment, European Commission</a></li> <li>• <a href="#">Tim Keyworth, Regulatory and Competition economist</a></li> </ul> <p>Thematic discussion and next steps</p>
15:50 – 16:00	<p>Conclusion and Wrap up</p> <ul style="list-style-type: none"> <li>• Aude Farnault, <i>Policy Analyst, OECD Environment Directorate</i></li> </ul>