

SUSTAINABLE TARIFF MANAGEMENT AND REGULATION

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1. INTRODUCTION

Water is the engine that moves us, a strategic resource and one of the most valuable ones for the quality of life and development of modern societies. Our future depends on the good use we make of it and therefore it is fundamental for all of the sectors involved to progress in its efficient management. Currently, it is accepted that water has economic, environmental, social and cultural values and the need to preserve the resource and use best practices, including sustainable tariff management, is clear.

OVERALL SITUATION

The demand share in Spain is currently 81% of the use of the resource for agriculture, 15% for domestic use and 4% for industry. However, this may change over time since, according to a recent UNESCO study, the urban population world wide increased from 38% in 1975 to 47% in 2000 and will reach 60% in 2030, an aspect which shows the global uses of water.

At least there is agreement that the availability of the resource is closely linked to management efficiency and that it is necessary to bring the implementation of these management improvements to the public through education, investing in environmental education and unifying the language.

NEED FOR BEST PRACTICES

In the current situation, preventive policies must be a constant factor in planning, both technically, economically and commercially and, of course, applicable to all types of users (domestic, industrial, agricultural, etc). This is what some like to call "management with anticipation," that is, implementing measures before the phenomenon occurs and that aid the sustainability of the resource. It is necessary to start from the basis that water systems cannot be designed for full protection against crises, for technical, budgetary and environmental reasons.

Efficient management can be deployed with a series of best practices, in policies (water planning), technical (investments in the distribution system) and economic (total recovery of costs, progressive tariffs, penalties for waste).

Best tariff practices are used as a great help in crisis management, considering current European water tariff criteria as well as the efficient parameters that must be set to guarantee the resource over time and to allow management on the basis of widely accepted references (optimum output levels, internationalisation of costs, acceptable average consumptions, etc).

2. WATER TARIFFS

With regard to tariffs, there are different positionings between public and private sectors ranging from those who believe that the free market should determine the price of the resource according to the productivity obtained from each use, to those who believe that the free market should not be involved but must be controlled and guaranteed exclusively by the state. Nevertheless, regardless of positioning, it is indisputable that supply efficiency is closely conditioned by the price of water and its tariff structure.

APPLICATION OF LEGAL RULES TO ATTAIN SUSTAINABILITY

These days, the European Union is issuing Directives to regulate and standardise the service as well as to protect the environment and to set policies for prevention and to anticipate the crises phenomenon.

It is stressed that "*water is not a commercial good like the others but a heritage which must be protected, defended and treated as such,*" which involves implementing economic instruments that make this treatment possible, incentivising efficiency in the use of resources and the achieving of the environmental objectives. These economic instruments must be based on two fundamental principles:

- The principle of recovering costs.
- The principle of he who pollutes, pays.

ADAPTING TARIFFS, CONSIDERING COSTS AND MANAGEMENT INDICATORS

Costs of water

It is necessary to set up relationships between the level of service provided and costs, especially if there are services that vary in space and time. The principle of recovering costs when the user pays the complete costs arising from the use of water must be complied with: financial, environment and resource costs, as defined below.

Currently there is a very wide range of tariff policies between the countries in the European Union and, generally, only part of the financial costs are recovered while the environmental and resource costs are scarcely taken into account. To start to recover all the costs, there must be transparency and a gradual process, making the existing grants evident and in all cases tending to eliminate them by applying specific rates that finance the loans or provisions of capital. The participation of consumers and the design of gradual implementation plans are fundamental to achieve the "acceptability of the tariff."

Water tariff

The efficiency of urban water supplies is directly conditioned by the tariffs system. Recently, the Ministry of the Environment has studied the recovery of costs in the Jucar river basin, showing that the level of recovery in the intake is 95% and distribution, 98%. However, this simply means that the accounted financial costs are recovered, not that the level of investments and current costs is desirable according to the best practices needed to anticipate the crisis and that, if carried out, would imply an important increase in the price of the water supply.

Regulation and tariff approval mechanisms

The tariffs to be applied in a supply cannot be exclusively the result of the year-by-year balance of anticipated costs and income. They must reflect the policy for managing the service, this being understood not only as the goal of recovering the real cost of the water but also searching for wider objectives: the efficient use of the resource, contention of water consumption, penalisation of the activities with the highest consumption, elimination of environmental and public health risks, etc.

The above would require the existence of a water tariffs regulation organisation with the capacity not only to analyse and improve the tariffs to be applied by local governments but also with the capacity to supervise compliance with the objectives set in the tariffs themselves. The authority of this organisation should include:

- The capacity to transmit the policies set by central and regional governments regarding the use of the resource in the tariff approvals.
- Improved transparency of the tariff for the end user.
- Act as a qualified arbitrator between local government and service operator.
- Guarantee tariff uniformity and the possibility of comparing services (*benchmarking*).
- Allow tariff systems be adapted to the requirements of the European Commission more quickly and effectively (guarantees of compliance with the timetables in the Framework Directive).

The definition of a series of management indicators for uniform comparisons between different managers (*benchmarking*) would allow the efficiency in management to be correlated with the service provided and its price. Experiments have already carried out along this line in United Kingdom, Portugal, Italy, the Czech Republic, etc.

KEYWORDS

- SUSTAINABILITY
- COSTS RECOVERY
- REGULATORY ORGANISATION
- INTERNATIONAL BEST PRACTICES
- EFFICIENT MANAGEMENT
- BENCHMARKING