



## FACT SHEET: WATER PRICING

What is the right price for water? Why do Canadians need their governments to get the prices right? There is a concern among water experts in Canada that provincial and municipal governments “rarely get the prices right” and that this results in “overconsumption, water use conflicts, deteriorating infrastructure, declining water quality, and stifled innovation in water-conserving technologies”. Raw water pricing occurs at the provincial level, whereas the water rates to consumers are set by municipalities. The challenge is that to ‘get the prices right’ water pricing reforms need to address numerous, often conflicting, policy goals. Alone, water pricing reform is unlikely to achieve the improvements needed in water allocation and infrastructure; nonetheless, effective pricing is a vital component of a wider effort to improve water management in Canada.

### What does ‘getting the prices right’ mean?

Prices should be fair, promote efficient water use, and protect water quality. Some questions to determine whether the prices are right include:

- *Are the prices **financially sound***? Water utilities need to be able to provide water and sewage treatment services and thus require enough revenue to support their provision and necessary system upgrades.
- *Are the prices **efficient***? Prices should reflect the “full social costs” of water use (including the cost of raw water, and the costs of building and maintaining the water collection and distribution systems) to consumers so that they make efficient water use decisions.
- *Are prices **environmentally sustainable***? The impacts of water use on environmental and human health need to be accounted for in terms of water quality. Promoting water conservation and supporting healthy aquatic ecosystems are essential goals to guide prices.
- *Are the prices **equitable***? Access to safe drinking water is increasingly viewed as a human right and water prices should ensure equal access to households with different incomes; in particular prices “should not pose an unacceptable burden on low-income households”.

### Different water pricing structures

There is considerable diversity in the forms of water pricing that exist across Canada. A 2004 report from Environment Canada sketched the national pattern as follows:

- 37% of Canadian households pay a **flat rate** for water, irrespective of the quantity they use.
- 62% have some kind of **volumetric pricing**, based on the volume of water consumed. Volumetric pricing breaks down into three general categories:
  - 39% pay for the quantity of water they consume at a **constant** unit price.
  - 13% pay for water used at a rate that **decreases** as the volume they consume rises.
  - 10% pay water prices that **increase** with the amount consumed, thus promoting conservation.

- Water use is 70% higher by consumers who pay a flat rate (that is not impacted by their consumption) than consumers who have volume-based rates.

### **Municipal Water Supply Prices**

Conservation makes sense for users with volumetric pricing structures because saving water saves them money. To do volumetric pricing requires metering. There are dramatic differences among provinces in terms of the percentage of metered households and in the average costs to consumers of flat versus volumetric priced water.

- In 1999, the ranking of percentage of population with metered service by province or territory ranged from a low of 0% in Newfoundland, to a high of 98.7% in Saskatchewan. The order from highest to lowest is as follows: Saskatchewan (98.7%), NWT (98.2%), Manitoba (96.6%), Nova Scotia (89.9%), Ontario (82.2%), Alberta (73.8%), New Brunswick (46.4%), Yukon (43.1%), British Columbia (24.1%), Quebec (15.4%), PEI (1.0%), Newfoundland (0%).
- In 1999, flat monthly water rates across Canada ranged from a high of \$62.80 in the North West Territories to a low of \$16.78 in Quebec. The average monthly charge for volumetric rates ranged from \$87.20 in the NWT to \$14.34 in Quebec.

### **What are the problems with current municipal water supply prices?**

- One of the biggest shortcomings is that water prices do not generate enough revenue to cover the capital and operating costs of water utilities. Prices are failing to meet the 'financially sound' criteria mentioned earlier. In 1996 the National Round Table on the Environment and Economy estimated that only 50% of these costs were being met through consumer water prices, the rest was supported through federal or provincial subsidies or simply lacking. In many cases the lack of money has resulted in tens of billions of dollars in water infrastructure deficit.
- The costs of deliver of water services vary with distance, timing and type of water use. Peak periods of use occur daily in the early morning and early evening hours, and annually during the drier summer months. "To be economically efficient, consumers must be made fully aware of the costs of their water use decisions". Prices in Canada are often distinguished between user groups (ex. industrial, residential, agricultural); however they do not generally reflect any of the fluctuations in supply costs.
- Currently, the costs accounted for in water pricing exclude environmental and human health costs associated with diminished water quality.
- There is little information available to define whether or not the prices are fair. Though one "limitation of constant price structures is that they usually do not generate a revenue surplus that can be used to subsidize water rates at low levels of consumption". Another issue is that rates are often based on average residential consumption, and may disadvantage single person households.

### **Provincial Raw Water Pricing**

Traditionally provincial pricing of raw water has been intended to promote water use rather than to encourage conservation. Provinces must decide how they will allocate water in the future, and their prices should reflect the many different values of water to Canadians.

- 7 of the 13 provinces and territories charge some kind of fee (one-time or recurring) for permits to do large-scale water withdrawals, while the remaining regions (including Alberta and Quebec) levy no fees.
- For provinces who charge for permits, fees range from \$0.01 to \$143 per 1,000 cubic metres of permitted annual withdrawals.
- Ontario has introduced minimal administration fees to recoup some of the assessment costs of the permitting process.
- In contrast, BC generated almost \$400 million in 2004 from water use permits.