



POLIS Project on Ecological Governance
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April 1st, 2014

Honourable Minister Mary Polak, Minister of Environment
Water Sustainability Act, Ministry of Environment
Water Protection and Sustainability Branch
PO Box 9362 Stn Prov Gov
Victoria British Columbia V8W 9M2

Re: *Water Sustainability Act*—Response by the University of Victoria’s POLIS Water Sustainability Project to the March 2014 Discussion Paper *Pricing B.C.’s Water*

Dear Honourable Minister Polak,

The POLIS Water Sustainability Project, located at the University of Victoria’s Centre for Global Studies, commends the B.C. Government on its efforts to put forward new legislation and table Bill 18-2014 *Water Sustainability Act* (WSA). The WSA highlights an effort by the provincial government to better ensure the sustainability of watersheds and ecosystems in the interest of future generations, and for the many diverse current uses. It holds significant potential for new and innovative directions for water management in B.C., as discussed during the extensive *Water Act* modernization engagement process, which commenced in 2008.

The POLIS team appreciates seeing this engagement process continuing through discussions about the critical issue of water pricing. Attached you will find our formal detailed response to the March 2014 *Pricing B.C.’s Water* discussion paper.

It is well understood that the *Water Sustainability Act* will have a number of significant new functions and activities for government. Implementing these will require additional resources, both in staffing and focused funding. As such, a thoughtful and thorough discussion and reform of the current provincial water pricing system is urgently needed. This review of water pricing is a once-in-a-decade opportunity for the ministry to not only emphasize new practices that promote conservation and innovation, but also to seek necessary additional resources through increases in water rentals.

In relation to these new priorities and action areas, we welcome a healthy dialogue around possible reform to the approach and scope of water rentals in B.C., as laid out in the *Pricing B.C.’s Water* discussion paper. The most critical objective of any such reform is to ensure that the pricing of water appropriately reflects all values of water (including needs for ecosystem integrity and the interests of future generations). This must be done in an adaptive fashion that is responsive to changing circumstances—both ecologically and socially.

A more innovative pricing program will also be vital for turning the positive aspects for sustainable water management outlined in the WSA into effective on-the-ground implementation. If the Province updates its water fees system to appropriately reflect social, economic, and ecological priorities, British Columbia will have the opportunity to entrench the government’s commitment to both water sustainability and financial stability in a manner that could be leading on a global scale.

The POLIS Water Sustainability Project team is available to continue to support and engage on this issue, and we are willing to host a focused session with leading water economists from across Canada to outline options and rationales for a modern and principled approach to the pricing of B.C.'s water. We would welcome the opportunity to partner with the Ministry of Environment to explore lessons from other jurisdictions in an effort to design a pricing regime that would suit British Columbia, address the issues and challenges ahead, and ensure the protection of fresh water in B.C., now and into the future.

Sincerely,



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Detailed Response from the POLIS Water Sustainability Project to the *Pricing B.C.'s Water Discussion Paper (March 2014)*

Prepared by the POLIS Water Sustainability Project, Centre for Global Studies, University of Victoria¹
April 2014

Current Fees and Water-Use Rentals in B.C.

Clear evidence exists—and is supported by numerous comments from previous consultations on the legislation—to indicate that water rentals and fees in B.C. are currently set far too low for surface water users. Basic administrative costs are not covered by the current fee system nor are there any real incentives for conservation of efficient use of water. By extending the current system to groundwater, a similar outcome should be expected.²

Water is highly valued and massively underpriced in B.C., and this represents a major missed opportunity to properly resource better water management and governance. Current industrial and commercial water-use fees and the proposed groundwater fee (rental) are extremely low, set at 85 cents per 1,000 cubic metres of water. This is the equivalent of the water used by approximately 3,000 average Canadians in a day—valued at less than one dollar.

Persuasive evidence exists that there is a willingness and ability to pay more to ensure that fresh water is protected and effectively managed. Existing fee schedules are not sufficient to even cover basic administrative costs, let alone help support important and needed monitoring, flow assessments, and enforcement. Neither do they encourage efficient use of water, which is contrary to the intent of the basic principles supported by the ministry for the legislation, the *Living Water Smart Plan*, and the pricing regime. A higher and more appropriate fee structure for both groundwater and surface water is needed.

With a new groundwater licensing system imminent, groundwater users must be brought into a pricing structure that effectively signals the value of water, promotes conservation and innovation, and covers the full costs of administration for such a regulatory regime. Someone must ultimately pay the administrative costs, whether it be taxpayers or water users in British Columbia. Linking usage more directly to an effective system of cost recovery may be more equitable and also more sustainable (from both a financial and ecological perspective).

¹ The POLIS Water Sustainability Project team extends a special thank you to Rod Dobell (Senior Researcher, Centre for Global Studies, University of Victoria), Ted Horbulyk (Associate Professor of Economics, University of Calgary), Jon O'Riordan (Strategic Advisor on Water Policy, POLIS Project) and Steven Renzetti (Professor of Economics, Brock University) for their input into this submission in response to the Government of B.C.'s *Pricing B.C.'s Water* proposal.

² The current *Service Plan* for the Ministry indicates no additional funding for the next three years for environmental sustainability, including water sustainability. As such, additional resources will be required to implement the WSA. The Ministry emphasizes the importance of the new legislation to bring a sustainable approach to managing our most precious resource. However, this level of sustainability cannot occur with the resources currently available in the Ministry of Environment and the Ministry of Forests, Lands and Natural Resource Operations. A budget increase in the order of at least 10 per cent to 20 per cent over its 2014 base will be needed. Given the overall priority within the provincial government to balance the budget, we believe that additional revenues raised through this review of fees and licences should provide the funding, dedicated to both ministry operations, to provide the essential resources to ensure full implementation of the legislation.

Necessary Characteristics and Preconditions of a New Water Rentals System

At the POLIS Water Sustainability Project, we have specifically identified a number of the water pricing principles, as laid out by the government in the discussion paper, that should inform an update of the schedule of water pricing (as set out in the *Water Regulation*). These are described below in the section “Core Principles of a New Water Rentals System.” Immaterial of which principles are used, an effective water rentals system must, fundamentally, have the following characteristics (and necessary preconditions):

1. Signal the actual cost of the water used (and the impact on the environment) to provide a financial incentive for users to use it productively and promote conservation and efficiency on a continuing basis.
2. Promote innovation and technological progress by encouraging inventors, engineers, and scientists to develop water-saving devices, practices, and technologies to promote more productive use and conservation in the long term.
3. Provide enough revenue for the Province (and potentially other suppliers) to cover the full cost of providing a number of necessary services, as outlined below in the section “About Full-Cost Recovery”
4. Metering of (or capacity to estimate) individual water connections/uses where directly licensed by the Province, and encouraging metering for local water utilities.
5. Understanding of the broader local watershed, stream, lake, or aquifer functions and ecological status.
6. Volumetric charging where charges are based (at least in part) on the actual amount of water used.
7. A water rate that is sufficiently high enough to affect decisions about water use and implementation of water-saving technologies, so as to ensure continuing access for all human uses and ecological needs.

Core Principles of a New Water Rentals System

POLIS supports a principled approach to establishing a sophisticated and comprehensive pricing regime. Based on the seven principles outlined in the government’s *Pricing B.C.’s Water* discussion paper, we feel it is critical to emphasize attention to **Impact on the Water Resources** and **Cost Recovery**. We also propose the additional principle of **Revenue Neutrality**.

1. **Impact on the Water Resources**—As stated on page 3 of the *Pricing B.C.’s Water* paper, “water pricing should reflect the impact of the intended purpose or activity on the resource.” This is a critical point and one that POLIS supports. A principled approach to pricing water should account for adverse impacts on watersheds, especially in high-risk areas, and for uses which have a detrimental impact on the local watershed.³

³ One potentially important aspect of arriving at both a “better” price and pricing system is to provide for differentiation based on actual water “consumed” versus water that is “used” in a temporary fashion. Certain processes (e.g. cooling water) return much of the water, only slightly altered, after a brief use. The price for such uses should reflect the lighter impact on the surrounding ecology versus more intensive and highly consumptive uses that impact water quantity (e.g. agriculture or hydrological fracturing (fracking)) or quality (e.g. urban uses that create heavily impacted wastewater returns). Any pricing mechanism should reflect this more significant impact on our watersheds and freshwater resources. In effect, the water user should absorb the costs of returning water of the same quality as what was withdrawn, or pay appropriate compensation to downstream users to reflect their costs arising from the impact of the lower quality water. A sophisticated pricing regime could also further incentivise water reuse through a tiered pricing system to encourage users to use less expensive water for non-potable uses.



2. **Cost Recovery**—As stated on page 4 of the *Pricing B.C.'s Water* paper, “water pricing should support sustainable water management and generate sufficient revenue to recover the costs of managing the water resources.” As previously stated, POLIS sees the ability to secure sufficient resources and capacity to actually implement key provisions as one of the most important aspects of any modern water legislation.
3. **Revenue Neutrality**—Though appropriate pricing designs may be phased in over time, it is possible that full-cost pricing reflecting the scarcity value of water will yield revenues potentially in excess of the costs of maintaining water supply and maintaining a modern water allocation system. In these circumstances, the government may wish to consider provisions that ensure that revenues in excess of full costs are returned to the citizens of British Columbia in a visible and identifiable manner unrelated to the water charges paid by individual users.

Regardless which pricing principles are ultimately selected, a central and powerful recommendation is to ensure a regular revisiting of the critical issue of ensuring the Province is pricing its vital water resources appropriately and recovering sufficient wealth from its resources through periodic review of the pricing regime—both to see how it is functioning and whether it is achieving its intended outcome. An important facet of this institutional design would be to create an arm’s-length body that would bring expertise and up-to-date knowledge on best practices on water pricing, and initiate future reviews. This would build legitimacy and acceptance of the new pricing regimes, and ensure that the politically challenging aspects of increasing and modernizing water prices remain manageable and build long-term benefits for all British Columbians.

About Full-Cost Recovery

Regarding the principle of **Cost Recovery**, data gathering and additional information regarding environmental flows or groundwater thresholds will be required. In addition, capacity for monitoring, enforcement, and, in some regions, new institutions and organizations will also be needed (e.g. watershed or oversight bodies). It is therefore important to acknowledge that any new legislative regime will require resources to ensure effective implementation. Thus, attention to ensuring additional funds through water rentals and fees (including groundwater) will be critical. Appropriate full-cost pricing of water allocations through licensing must be set to ensure:

- an effective provincial enforcement regime can be maintained (polluter pays);
- comprehensive monitoring and reporting of water use and impacts on watersheds and aquifers (transparency);
- detailed understanding of local environmental flow needs and aquifer health and dynamics to inform all allocation and water planning decisions;
- financial resources and expertise for development of enforceable plans and application of area-based regulations in priority areas, including capacity to implement and ensure compliance (financial sustainability);
- a conflict resolution processes that assures citizens the right and ability to participate in key aspects of the allocation decision process, including citizen access to appeal decisions (public participation);
- independent oversight (accountability);
- basic administrative support for designated authorities (watershed governance); and
- increased efficiency and conservation (volume-based pricing).



Additional Specific Considerations and Recommendations

1. **Short-Term Licences**—All short term licences especially those granted by the Oil and Gas Commission in the oil and gas industry should be charged a fee or rental, since these can represent significant amounts of water and can extend over two years, and are routinely rolled over for additional periods. No industry or user withdrawing, and especially consuming, water should be given this resource for free.
2. **Area-Based Regulations and Sustainability Plans**—In watersheds where these planning tools are used, decision-makers should have the discretion to increase fees over the general pricing schedule to further encourage efficient use and reflect local conditions (and scarcity). This is consistent with the Ministry of Environment’s principle of encouraging efficient water use in water short areas.

Conclusion

The Government of British Columbia is to be commended for its initiative in pursuing the crucial institutional redesign articulated in the *Water Sustainability Act*, along with the implied and necessary revision of B.C.’s water pricing schemes. Importantly, it should also be commended for the extensive consultation process which has built interaction with citizens as part of this vital undertaking. It will be important to maintain this momentum through continuing interaction with citizens as principles are translated into prices and ongoing participatory governance processes.

As stated, this new regime cannot be delivered with a flat-lined budget over the next three years. There must be a substantial increase in ministry resources to fully implement the new legislation, and the fee increase is an important opportunity to seek these additional resources at no net cost to the ministry’s overall budget.

APPENDIX: Additional Readings and Resources

Brandes, O.M., Renzetti, S., & Stinchcombe, K. (2010). *Worth Every Penny: A Primer on Conservation-Oriented Water Pricing*. Victoria, Canada: POLIS Project on Ecological Governance at the University of Victoria. Available at <http://poliswaterproject.org/publication/344>

Horbulyk, T.M. (2010). *Water Pricing: An Option for Improving Water Management in Alberta*. Edmonton, Canada: Alberta Water Research Institute/Alberta Innovates. Available at http://www.seawa.ca/reports/Water_Pricing_An_Option_for_Improving_Water_Management_in_Alberta.pdf

Renzetti, S. (2009). *Wave of the Future: The Case for Smarter Water Policy*. Toronto, Canada: C.D. Howe Institute. Available at http://www.cdhowe.org/pdf/commentary_281.pdf

