



British Columbia's New Water Pricing Regime

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Background

On May 29th, 2014, British Columbia's new *Water Sustainability Act* (WSA) became law. Implementing the WSA will involve new governmental functions and activities, and will require additional resources. To address some of these issues, the provincial government initiated a review of water licence pricing last spring. Submissions made to government during the public engagement period revealed that B.C.'s fresh water is highly valued and viewed as massively underpriced.

Issue

The newly updated water pricing regime must set prices high enough to provide the resources necessary to fully implement the new WSA and encourage end-users to increase their efficiency and conservation efforts.

The New Fee and Rental Schedule²

In February 2015, the Province announced a new fee and rental schedule for water users that will help recover the costs of implementing the WSA and better manage water for future generations. The rates will come into effect in 2016, along with the new provincial groundwater licensing system. The rates increase both initial one-time application fees for new users and annual rental payments. In general, the pricing changes represent a doubling of the cost to end-users, both in initial and annual usage rates. For example:

- An Abbotsford farmer with 100 cows will see an annual licence fee change from \$25 to \$50
- The annual payment for a domestic surface water licence will increase from \$25 to \$50
- The water required to irrigate 40 acres of hay in Kamloops will increase from \$90 to \$128 annually
- Municipalities and industrial users, such as water bottlers, oil and gas operators, and many mining operations, will be charged at the highest rate of \$2.25 per million litres of water (1000m³). To put this in context, Nestlé will likely pay less than \$600 annually for withdrawing water from its Fraser River facility, assuming an estimated use of 265 million litres annually
- Hydraulic and placer mining will be charged only \$1.30 per 1000m³ for most of their operations

Implications and Concerns

The new rates are an improvement on the previous fee system. However, B.C.'s rates remain among the lowest in the country. Province-wide, they are almost universally viewed as still too low.³ There

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² Water rentals associated with major hydroelectric power generation projects are linked to B.C.'s energy policy and were not part of the water pricing review.

are some concerns that the new fee schedule has not raised rates enough to support WSA implementation, or influence end-user behaviour to promote efficiency, conservation, or innovation. According to our ongoing work in this area, the following considerations must be taken into account when looking to modernize a provincial water licence pricing regime.

1. Necessary Characteristics of an Effective Water Rentals System

- **Signal the actual cost of water used, including impacts on the environment** to provide a financial incentive for users to use water productively and promote continual conservation and efficiency;
- **Promote innovation and technological progress** by encouraging inventors, engineers, and scientists to develop water-saving devices, practices, and technologies that promote more productive use;
- **Provide enough revenue** for the Province (and potentially other suppliers) to cover the full cost of providing the necessary services associated with water provision and management;
- **Metering of (or capacity to estimate) individual water connections/uses** where directly licensed by the Province, and encouraging end-user metering for local water utilities and local governments;
- **Understanding of the broader local watershed, stream, lake, or aquifer functions** and their ecological status;
- **Volumetric charging** where charges are based (at least in part) on the actual amount of water used;
- **Water rates that are sufficiently high enough to influence decisions about water use** and implementation of water-saving technologies, while ensuring provision for basic human needs.

See Brandes, Renzetti, & Stinchcombe, 2010 for a full discussion.

2. Key Elements of an Effective Full-Cost Recovery System

The new WSA will be costly, and someone—whether it be B.C. taxpayers or water users—must pay. One key recommendation is to link water usage to an effective system of full-cost recovery (see Brandes, 2014 for a full discussion). A full-cost recovery system must include the following elements:

- **Beneficiaries pay** to support the maintenance of an effective provincial enforcement regime;
- **Transparency** is enhanced by monitoring and reporting of water use and watershed impacts;
- **Science-based decision-making** informs all allocation and water planning decisions, which requires monitoring and reporting of actual water use;
- **Financial sustainability** necessitates financial resources for the development of enforceable plans and application of area-based regulations, including resources for implementation and compliance;
- **Public participation** is enhanced by conflict resolution processes that ensure citizens the right and ability to participate in key aspects of the allocation decision process, and to appeal decisions;
- **Accountability** is ensured by independent oversight;
- **Watershed governance** requires basic administrative support for designated authorities; and
- **Volume-based pricing** creates increased efficiency and conservation.

³ British Columbia's new rental rates range from \$0.02 to \$2.25 per million litres of water (1000m³). As points of comparison, the Province of Quebec charges up to \$70 per 1000m³, while Nova Scotia charges over \$140 per 1000m³ for some purposes (see British Columbia Newsroom, 2015).

Recommendations

The water pricing update is a step in the right direction. However, the above analysis suggests that further steps must likely be taken in the coming years to ensure the new water pricing regime truly reflects the value of this precious resource. Therefore, we recommend the following to ensure provincial water licence pricing provides adequate resources to support full WSA implementation:

1. **Implement a regular, periodic review of the pricing regime starting in 2017** to determine whether the Province is appropriately recovering sufficient wealth from its freshwater resource;
2. **Create an arm's-length body** to help initiate future reviews, provide expertise regarding water pricing best practices, promote independent decisions, and build public confidence;
3. **Link water use to an effective system of full-cost recovery** to ensure the Province has adequate revenue to cover the full cost of implementation;
4. **Incorporate the necessary characteristics of an effective water rentals system** as the water rental and fee system is continually fine-tuned over time;
5. **Ensure revenue neutrality** by returning any excess revenues generated by future full-cost pricing to the citizens of B.C. through conservation oriented programs or through other visible and identifiable approaches that are unrelated to individual water user fees; and
6. **Grant decision-makers in watersheds with Area-Based Regulations and Sustainability Plans in place the discretion to increase fees** over the general pricing schedule to encourage efficient use and reflect local conditions (and scarcity).

Sources

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