DEPARTMENT OF WATER AFFAIRS
PRICING AND, ECONOMIC REGULATION REFORM (PERR) PROJECT

(Pricing Strategy, Development of Infrastructure funding model and the Establishment of Economic Regulation)

Minutes of a meeting of the Pricing Strategy Work Stream

Date: 14 November 2012
Time: 13:30–16:00
Venue: Protea Hotel, Waterfront, Centurion

Present:
Department of Water Affairs
Bofilatos, E
Hlatshwayo, L
Ismael, F
Mabela, K
Machedi, N
Machitje, S
Mathe, ZY
Morodi, C
Moshidi, S
Mudau, N
Sekgothe, P
Sigwaza, DP
Van den Berg, O

Stakeholder representatives

Kritzinger, W	Agri SA
Opperman, N	Agri SA
Muiko, K	Amatola Water
Thompson, C	Amatola Water
Mofokeng, P	Department of Agriculture Forestry and Fisheries (DAFF)
Peter, M	Forestry SA
Schmahl, C	Lepelle Northern Water
Raphela, A	Magalies Water
Brink, M	Mhlathuze Water
Moalusi, M	Rand Water
Ncobela, L	Rand Water
Nyandoro, T	Rand Water
Nyembe, M	Rand Water
Knoetze, N	South African Association for Water User Associations (SAAFWUA)
Botha, M	Policy adviser to South African National Biodiversity Institute (SANBI)
Govender, M	South African Sugar Association (SASA)
Gevers, N	Umgeni Water
Singh, K	Umgeni Water
Patel, N	Water Research Commission (WRC)

Professional service providers

Hayat, T	Pegasys
Koch, P	Pegasys
Madinginye, TDS	Pegasys
Pegram, G	Pegasys
Schreiner, B	Pegasys
Sussex, A	Write Connection (Scribe)

1. OPENING, WELCOME AND PURPOSE OF THE MEETING

The chairperson, Mr Faizel Ismail, opened the meeting.

A round of introductions was unnecessary as one had taken place in the funding model meeting that morning. The discussion that morning had focused on some of the elements that impacted pricing strategy.

2. ADOPTION OF MINUTES

No changes were requested to the minutes of the meeting 6 August 2012. The chairperson referred to the action items arising from the previous work stream meeting.

Item 1	A time would be scheduled for the chairs of the work streams to meet.

The meeting had taken place the previous day.

Item 2	The Project Management Office would send Mr Botha a copy of the previous pricing strategy work stream meeting minutes.
Item 3	The Project Management Office would send Mr Botha a copy of the conceptual model document.
Item 4	Mr Machitje would circulate the dates for the remaining regional meetings on the raw water tariff determination process.
Item 5	Mr Machitje would circulate the draft tariffs for comment.
Item 6	A connection would be added to the conceptual model between water user associations and ecosystems.
Item 7	As soon the next set of deliverables (those due by November) was available, the Project Management Office would circulate them to the work stream members

Items 2 to 7 had all been completed.

Item 8	Mr Kritzinger raised the current model used for levying money as a topic for discussion at the following pricing strategy meeting, and Mr Mqina requested that this be noted.

Item 8 would be covered by the gap analysis report that day.

Item 9	In finalising the Inception Report and developing the pricing strategy, the technical team would consider the following issues raised by the work stream: • Basic domestic supply • Equitable share • Compensation for water use efficiency technologies • Transfer component Differences between system-based, scheme-based and cost-reflective pricing systems

Item 9 had been partially completed. Ms Schreiner pointed out that the pricing strategy did not deal with basic domestic supply or equitable share. The pricing strategy applied to raw water and not water services tariffs.

Ms Nyembe was concerned that no assessment had been done to address transfers and fiscus provisions. She asked whether a review would be conducted and recommendations be made. The request had been for a specific deliverable in the Inception Report.

The chairperson asked whether the matter would be addressed in the gap analysis and the technical team replied that it would not be.

Ms Sigwaza explained to the chairperson that the matter had to do with the integration of the entire water value chain into the project; currently the water services component was not included in the project scope. The matter would be discussed outside of the meeting.

Chairperson said that his understanding of the transfer component was that it referred to how money would be moved from outside government into government. He asked what the potential solutions and were and the pitfalls and benefits were. The matter had been mentioned in the Inception Report but not adequately addressed.

Dr Pegram provided context from the previous pricing strategy meeting. It had been suggested that the project should encompass the entire water value chain, including the water services component and a consensus had been reached in that regard. Pegasys did not have a mandate from the DWA to increase the project scope, so water services currently fell outside of the project. The technical team had not come up with the recommendations alluded to by the chairperson; those needed to be made by whoever was responsible for the water services component of the project.

Ms Moshidi mentioned that an inception meeting had been held the previous day for another project run by Water Services Economic Regulation. The meeting had looked at the revision of the section 10 regulations (the norms and standards for certain tariffs) and that was where the two items would be addressed (basic domestic supply and equitable share). The group that had met would engage with the pricing strategy and economic regulation work streams when conducting work.

Ms Mathe expressed surprise and asked Ms Sigwaza to clarify the matter. Ms Sigwaza said that the matter would be discussed outside of the meeting.

Ms Mathe replied that the matter kept coming up and asked for timeframes. The chairperson requested that Ms Sigwaza report back on the matter within the week.

3. MATTER ARISING FROM MINUTES

Ms Sigwaza would discuss project scope extension (the proposed inclusion of water services) and clarify the purpose of the inception group that had met the previous day, with Ms Mathe and Ms Ismail, within a week.

Action: Ms Sigwaza

4. PRESENTATION OF THE RAW WATER PRICING STRATEGY (RWPS) GAP ANALYSIS REPORT

The chairperson asked whether everyone had received a copy of the gap analysis and Ms Sigwaza indicated that they had.

Mr Madinginye said that the gap analysis was one of the pricing analysis work stream deliverables. Prior to the analysis, an international pricing review had been conducted. The gap analysis considered current pricing strategy in South Africa and identified areas that could be more effective.

The challenge was to price a good that was both a public and a private good. The key principles currently underpinning the provisions of the pricing strategy:

- Social equity
- Ecological sustainability
- Financial sustainability
- Economic efficiency.

There were four existing key principles, but economic development was identified as a possible addition.

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Currently there were four pricing strategy objectives:

- Funding Water Resource Management (WRM) through water use charges
- Funding infrastructure development, betterment, operation and maintenance
- Achieving the equitable and efficient water allocation and use through the economic charge
- Providing for a differential rate for waste discharge.

Objectives gap

- The RWPS did outline methodology and implementation strategy for the following:
    - Setting water use charges for ensuring redress
    - Water redistribution for rural communities' development.
- The RWPS said nothing about the form that financial assistance for redress should take
- The form of support should be prescribed:
    - Approach similar to the government's free basic water policy.

In response to a question about solutions from the chairperson, Mr Madinginye said that the aim of the analysis was to identify the gaps; solutions would not form part of the presentation.

Mr Nyandoro referred to the lack of detail on the form that financial assistance should take. Before talking about financial assistance, bad debt policy and the reasons why financial assistance was required should be engaged with.

Ms Mathe asked whether the following scenario was equitable: a company bought water from Rand Water and made a profit from that water; an individual bought water and did not make a profit. Mr Madinginye responded that apart from a study conducted by the Council for Scientific and Industrial Research (CSIR), not much attempt had been made to economically value water. Equitability in the context of the analysis was about access and redress.

The Chairperson asked whether the economic valuation of water was identified as a gap, and Mr Madinginye said it was.

Ms Schreiner reminded the work stream group that the analysis covered gaps in the raw water pricing strategy; equity in access to municipal supply should be dealt with under step tariffs. Redress in the context of the analysis referred to access to water for productive purposes.

WRM Abstraction charges:

- Activities required to protect, allocate, conserve, manage and control water resources
- The WRM charge is currently calculated in the following manner:
    - Total budget cost of each activity is determined
    - Total budget cost of each activity is divided by the registered volumes
    - Unit charge is then applied to each user's registered volumes.

WRM Abstraction charges gap:

- Eliminates the DWA risk and charges users maximum costs with or without use
- Disincentive for efficient water use
- Metering needed for variable costs and use – approach nullifies metering
- A decision is needed on who will pay for meters and/or measuring devices
- A two-step tariff that covers fixed costs and meters variable costs could be used.

The chairperson said that gaps being identified were important, and asked how those gaps would be dealt with. He said that if decisions had to be made, a facilitation process should be started in that regard.

Who pays WRM charges?

- All water users pay WRM charges
    - Forestry sector does not pay the charges related to water quality management
- Forestry and Agriculture have the WRM charges capped:
    - R10 per hectare plus Producer Price Index (PPI) for forestry
    - 1.5 cent per m3 plus PPI for irrigation.
- Resource poor farmers and foresters charges to be phased in over five years.

Who pays the gap?

- No provision is made for the use of water for animal rearing
- No reasons given for caps – no clear methodology for their calculation
- Use of PPI as the rate of increase is also unsubstantiated
- Support to poor farmers not in place for long enough.

Mr Knoetze referred to the schedule one users who paid WRM charges. He felt that those funds were inadequate to support resource-poor farmers and that the five-year period for phasing in poor farmers was not long enough. He did not believe that those farmers would all be able to afford water in five years' time.

A member of the work stream (Vusi) asked what was wrong with the current pricing strategy and what the team was attempting to address. He felt that it was important to identify failures in the current pricing strategy in terms of economic and social development before performing a gap analysis.

The chairperson responded that there were a number of areas where the current pricing strategy was underachieving, but it was an important point that had been made, and he requested a response from Pegasys. He added that there was an obligation to review the pricing strategy every five or so years.

Ms Sigwaza said that the gap analysis followed on from the problem statement as defined in the Inception Report.

Ms Nyembe saw the gap analysis as inadequate in terms of the principles that had been adopted by the work stream. In the current pricing strategy, social equity and various other components had not been addressed. In terms of abstraction charges, she asked whether the analysis was referring to what had not worked previously, or to how social equity and redress would be addressed going forward.

Mr Kritzinger referred to the comment on the rate of increase being unsubstantiated for PPI and asked why that was so. Mr Madinginye replied that the issue was that it did not reflect the changes in the costs in the activities being executed and the cost of equipment.

Mr Kritzinger said that previously, when the increase was more than PPI, farmers struggled to pay that amount. If poor farmers were subsidised and the increase was greater than PPI, when the time came for those farmers to pay back the funds, the repayments would be 130 or 140 percent of the subsidy. Emerging farmers would not be able to afford the repayments and food security would be threatened.

Mr Madinginye pointed out that the increase could end up being less than PPI.

The chairperson asked again about solutions, and hoped that the issues were being noted by the work stream members so that thought could be put into ways of addressing those issues prior to the next meeting.

Action: Work stream

Ms Schreiner explained that identifying gaps was the current step in the process; proposing solutions was the next step. In drafting the pricing strategy, the socio-economic impacts of the various approaches required investigation. The rationale behind much of what was in the current pricing strategy needed to be clearly substantiated. For example, if PPI was used going forward, the reasons for doing so needed to be clear.

Mr Botha said that he had only received the gap analysis document that morning, as he was not on the work stream distribution list.

Action: Project Management Office

Mr Botha asked whether there would be an opportunity to comment on the document in writing, and whether the comments would be consolidated and circulated to the work stream members. The chairperson said that it was essential that that happened.

Action: Project Management Office

Dr Pegram referred to Vusi's question and said that the gap analysis looked at the elements of the pricing strategy that were unsubstantiated or needed to be reconsidered. The project existed because of the legal requirement to revise the pricing strategy. The experience of the last ten years had shown that some aspects of the current strategy worked better than others.

Dr Pegram said that the pricing strategy consisted of a water resources management charge, an infrastructure charge and other charges. There was a waste discharge system parallel to that. There was a change in the boundaries of the Catchment Management Agencies (CMAs), and there was some discomfort over the allocation of the water resources management charges, such as the capping of agriculture and forestry, and applying the remainder of the charges uniformly to domestic and industrial users. It could be that there were better ways to perform that allocation, and that was what the project was attempting to answer. There was also the question of how to fund social infrastructure vs. economic infrastructure. The practice had to an extent overtaken the policy and rules; that formed the problem statement.

There was a separate project dealing with the Waste Discharge Charge (WDC), so the presentation touched on it very briefly:

- In place to promote the preservation of resource quality
- The calculation is based on the registered discharge waste loads
- Calculation methodology involves:
    - Taking the average (mean) discharge concentration
    - Multiplying that by disposed volume of water.
- All sectors pay WDC except forestry.

Chairperson said that the department was not charging for waste discharge; he believed that Mr Madinginye was referring to a theoretical pricing arrangement. He was keen to start looking at the practical implementation as well.

Mr Madinginye replied that it was theoretical in that it had not been implemented yet. The technical team were attempting to align the timeframes of the different projects that fed into one other.

Ms Nyembe asked whether the last point (all sectors pay WDC except forestry) was currently applicable and Mr Madinginye replied that is was

Ms Mathe said that the last point should read “all sectors *are supposed to* pay WDC, except forestry”. She said that a high degree of frustration existed in the water sector; millions were being spent on chemicals to purify water and pollution levels were unacceptable. Mr Madinginye agreed that Ms Mathe’s choice of wording was more accurate.

Action: Technical team

Chairperson agreed with Ms Mathe’s comments about the level of frustration. The WDC was important and needed to be implemented as soon as possible, particularly as it formed part of the pricing strategy.

Dr Pegram said that there was frequently confusion between the two types of charges for waste discharge. The charge referred to by Mr Madinginye had been established in terms of pricing strategy but not implemented yet; there was an implementation issue related to registration and departmental systems, not a strategy issue. There was an additional charge that was in the domain of the pricing strategy group; it was about recovering the WRM charges from more than abstractors i.e. also waste dischargers, in order to funds CMAs and regional offices. There was another project for charging dischargers a higher charge in order to mitigate or alter behaviour – that was the WDC system. One system was for the collection of revenue and one was for the management of pollution.

Ms Mathe asked whether Waste Discharge Management (WDM) was not part of the pricing strategy. Dr Pegram responded that it would become part of the pricing strategy. The WDC project led by Ms Mohotlhi was a separate project that dealt with implementation in parallel with the PERR project, but one of the charges within the WDC system (the mitigation charges) would form part of the pricing strategy.

Depreciation:

- The loss in functional performance and real term value of existing infrastructure
- Depreciation charges meant to refurbish existing assets on a prioritised basis
- On/off-budget funded schemes depreciation charge only applicable once loans are repaid
- Calculating depreciation:
    - Annual Depreciation Cost = (Replacement value*Depreciable portion %) / expected useful life

  - Straight line basis over the useful life
  - Depreciation amount = annual depreciable portion of replacement value
  - Replacement value = revaluation of the value of the assets

Depreciation gap:

- PPI based revaluations most likely did not accurately reflect correct value of assets
- No dedicated refurbishment fund comprised of depreciation charges established
- No Water Trading Entity (WTE) charge allocation protocol
- Use of historical cost for depreciation calculation posed challenges.

Ms Mathe asked whether Mr Madinginye was saying that the refurbishment fund existed but had not been implemented yet. Mr Madinginye replied that refurbishment was being charged for, but there was no clear protocol as to how the charges were allocated. When a user was charged for Return on Assets (RoA), depreciation and WRM charges, there were no guidelines as to what portion of the charges should be set aside for refurbishment.

Chairperson referred to the 2008 evaluation and asset register. The registered value plus PPI would be used for the next 10 years, and the question was whether PPI was adequate to fund replacement costs over a ten-year time period.

Ms Gevers said that the principle of revaluation and replacement costs should be discussed; if the department performed a revaluation then perhaps water boards and other utilities would be prepared to do so too. She said that it would increase the cost of water services.

Ms Nyembe said Rand Water had noted that the DWA had been performing revaluations over the past couple of years; it was embedded in the pricing strategy, and it did impact on Rand Water. She asked what the implications would be of remaining with a process where historical costs were used for accounting.

Mr Knoetze said that from a Water User Association (WUA) perspective, some users of schemes had paid depreciation charges over many years. When, for example, dam sluices required refurbishment, the money to do so was not available; no ring-fencing of the funds had taken place. There was also a need to relook at the formulas used as well as the valuation of assets.

Mr Knoetze's WUA was experiencing difficulties working with the other WUAs in the country due to the fact that the understanding of the same definitions, strategies and policies was different in all nine provinces.

Mr Kritzinger referred to operations and maintenance (O&M) and depreciation. His understanding of depreciation was that after a certain number of years, the amount would be paid off. He asked whether O&M costs were not funding the same thing.

The chairperson replied that depreciation and O&M charges served different purposes. Depreciation funds were not earmarked for O&M costs. The rationale behind depreciation charges was defined in the pricing strategy. Depreciation referred to the fact that over time, the asset would have to be replaced. The revaluations incorporated inflation into the calculated cost of replacement.

Return on Assets (RoA):

- In place to raise funds for the development and betterment of government waterworks
- RoA is determined by fixing a charge to earn a specific rate of return on the current depreciated replacement value
- The RoA rate of 4% was based on the estimated growth in water demand for industrial and domestic users
- Irrigation and forestry don't pay RoA.

The chairperson said that from a private sector, RoA meant something very different to the raising of funds for the development and betterment of government waterworks. He felt that the RoA was the wrong nomenclature for what was under discussion and would lead to confusion.

Mr Knoetze also disagreed with the use of RoA; to him, RoA referred to capital expenditure repayment and was not for the development and betterment of government. The chairperson disagreed, saying he reviewed RoA as profit. He requested that the name be changed and encouraged the work stream to propose alternatives.

Action: Technical team, work stream

Ms Schreiner said that changing the term RoA would require changing the National Water Act (NWA). The term RoA was used in the NWA. She suggested that the change be included in the general laws amendment bill that was about to be processed. She agreed with the chairperson's reservations about the term RoA and also questioned the way RoA was calculated in the current pricing strategy (at four percent).

Action: Project Management Office

Ms Gevers said that RoA in any business allowed for expansion and growth in order to generate profits. To her, in the case of the water sector, profits were for improvement and expansion. The shareholders were the consumers.

The chairperson said that there was a need to clearly understand and define what the RoA charge was for, and that charge needed to reflect the economic reality of its intended purpose. It required more thought than merely setting it at four percent.

Mr Nyembe said a question had been posed by the portfolio committee as to whether it was constitutional for people to pay for future infrastructure. There was a degree of inertia with regard to raising funds for future capacity increases. Possibly there should be more focus on raising funds for the servicing of debt.

Mr Nyandoro pointed out that it appeared that the goal was to price water rather than water services. He said that the assets that delivered water to users needed to be sustained currently and in the future. RoA as currently referred to in the pricing strategy did not address the requirements needed to sustain those assets. It was important define RoA in public and not private sector terms.

Invasive Alien Plants (IAPs) charges

- The full cost of control of certain IAPs may be charged to affected water users - only with the agreement of those water users
- One of the challenges of this charge is that magnitude of the charge
- A related gap is the absence of a charge for ecological infrastructure.

Economic charges:

- RWPS makes provision for the setting of an economic charge
    - Meant to support the objective of economic efficiency.
- Two methods of setting this economic charge:
    - The use of a proxy for the economic value of water
    - The use of market oriented mechanisms.
- The charge was yet to be implemented
- There was no calculation of the economic value of water.

The chairperson asked whether Mr Madinginye was saying that the RWPS made provision for a distinction between charges based on the fact that water had different value to different users, and that currently the economic charge was not implemented, much the same as the WDC.

Ms Schreiner responded that it was allowed for in the NWA, but had not been charged; given the increases in prices to bring them up to real costs, it had not been necessary to add an economic charge. Legally the department was allowed to add an economic charge in terms of the NWA.

The chairperson asked whether the current pricing strategy made provision for an economic charge. Mr Madinginye replied that it did, but it was not implemented. Someone commented that that was incorrect: the strategy did not make provision for an economic charge. The chairperson requested that the facts be verified.

Action: Technical team

Hydropower generation tariffs:

- There was very limited hydropower generation in the country.
- The State has been promoting the development of hydropower generation.
- There was potential to develop approximately twelve additional small hydropower plants.
- This raised the question of how to structure charges for water use in this sector.

Hydropower generation tariffs gaps:

- Hydropower was not specifically addressed in the RWPS.
- Current consumptive charge would make these small hydropower schemes financially unviable.
- Hydropower was not essentially a consumptive use of water.
- Hydropower schemes affected the scheduling of water releases.

Mr Madinginye presented a slide indicating the differences between proposed charges and the full-cost charges for 2013/14. He said that the Western Cape industrial and domestic use charges were relatively low compared to those of Limpopo and the Eastern Cape.

Mr Knoetze felt that saying the charges were lower for the Western Cape was a broad statement that required substantiation. The costs were based on different schemes and therefore not directly comparable.

Ms Schreiner agreed that the figures were general, but said that in many instances, charges in the Eastern Cape and Limpopo were well above the national average. There had been discussions around national, system and scheme tariffs, and how those would address the issue of equity. The pricing strategy attempted to serve a number of purposes, including obtaining sufficient funds through taxes, tariffs and transfers to ensure sustainable infrastructure and the provision of services, and to address equity issues and support national development objectives. The question was whether the current system was achieving those objectives, and if not, how that could be facilitated.

Mr Madinginye presented a slide on the caps and exemptions gap for the irrigation sector that revealed a shortfall of R1.5 billion. Ms Schreiner commented that depending on the way RoA was defined that number could change. She said that the word ‘cap’ meant subsidy; the agricultural sector was being subsidised. It was important to be clear what was being subsidised, and to address it as a targeted subsidy and not as a cap.

The chairperson agreed that the cap was a ‘subsidy of sorts’ and should be described as such. He asked who would fund that subsidy of sorts and said that that should be made clear in the pricing strategy.

The chairperson asked what the revenue loss referred to. Mr Madinginye replied that it referred to the revenue if full costs were charged less what was actually collected (full cost revenue – capped revenue). The RoA was not being charged and required subsidisation.

Dr Pegram clarified that the bottom line in the caps and exemptions gap table referred to real expenditure that was not being recovered i.e. a real financial accounting gap. The second line was an opportunity cost. It was not an expenditure until a decision to refurbish was made. The third line also represented an opportunity forgone, but it was important to look at the decisions that had been made around RoA at the time. The four percent had been applied to the industrial and urban sector; the view was that agriculture would be capped and would not require further expansion. That is why RoA was not applied to agriculture. Each of the numbers had different financial implications in terms of the opportunity cost and the actual financial cost.

The chairperson commented that the differences were cash flow differences. At some point that money would have to be paid; some kind of provision and reserve was required.

Subsidy challenges:

- The caps as a subsidy approach leaves much to be desired
- Not targeted at all – leads to the subsidisation of users who can afford to pay
- There was a need to account for and pool subsidies across department for efficiency

- How should subsidization be handled – was there room for cross-subsidisation of water use.

Principles of cost allocation:
- No clear principles and criteria for allocating activity costs between the WTE and fiscus
- No clearly drafted principles or allocation criteria to determine between social and commercial projects - currently done on a case-by-case basis.

The chairperson said that there were two parts to WTE: all the costs associated with infrastruture were covered by the WTE. It was the shared regional costs, particularly the WRM charges, that posed a challenge.

Mr Madinginye presented a table of charge allocations by funding type.

Ms Gevers mentioned the Mooi-Mgeni Transfer Scheme (MMTS) phase 2, and said that whilst the item was being constructed, the capital unit charges were paid until the debt was paid off. She asked whether RoA began applying once the debt was paid off, and Mr Madinginye indicated that it did.

Ms Gevers said that that did not make sense to her, and if one approached the market for the capital, why not ask for RoA as well. She had no objection to paying O&M charges. Mr Kritzinger seconded what Ms Gevers had said, saying that that was what he had meant when asking about depreciation vs. O&M.

The chairperson said it all depended what was meant by RoA and what it was intended for, which needed to be clarified.

Ms Nyembe asked where the cost of servicing debt fit into the table of charge allocations. The funding model dealt with the raising of the debt. Mr Madinginye said that was part of the capital unit charge. Ms Gevers added that that was what Umgeni water paid to the Trans-Caledon Tunnel Authority (TCTA): the repayment of capital plus the finance charge (for the off budget).

Tariff setting level:
- Three possible levels to set water use tariffs
  - National
  - System
  - Scheme.
- Pros and cons in six areas:
  - Equity
  - Administration
  - Cost calculation
  - New scheme price impact
  - Cross-subsidisation
  - Use efficiency.

Mr van den Berg referred to the tariff setting levels. When the implementation of expensive new infrastructure was required in an area with a small user base, the costs are charged on a scheme-based level and it became unfeasible to recover the costs from the direct beneficiaries of the scheme. It was necessary in those cases to move from scheme-based cost recovery to system-based cost recovery. It was important to consider how that transition should be made and to have guidelines in place for doing so.

Mr Madinginye said that a scheme-level charge was the marginal cost of a new scheme. At a system level, some price absorption of a new scheme could be allowed, and at a national level, the absorption became easier. At a national level there was more scope for cross-subsidisation, but it was necessary to ensure that people in very poor rural areas did not end up subsidising the very wealthy areas.

5. WAY FORWARD

The chairperson said that the key target date was 31 March 2014. He asked Ms Schreiner to talk on the key deliverables and expectations. He asked how the work that had been done could be taken forward. Gaps had been identified that required thoughts and proposals, all of which should go into a document.

6. CHANGES IN TIME FRAMES

Ms Schreiner said that the timeframes had changed, as the minister wanted the pricing strategy changed as soon as possible. The new pricing strategy could only be implemented in April 2014. Ms Schreiner's concern was that there were policy issues that needed to be dealt with; it was not simply a case of changing the wording. The question was what to produce by the end of March 2013. Possible options were to devise a draft pricing strategy for gazetting or a document presenting a set of alternative approaches. If it was necessary to advise on the alternatives, some internal processes would be required from the DWA.

The chairperson suggested that the mater be raised at the next PSC meeting (21 November 2012; subsequently postponed to 6 December 2012). He said it was important to ask:

- What are the expectations for 31 March 2013?
- What are the risks?
- What will it take?
- What is required internally?
- Can it be done?

Ms Schreiner said that the pricing strategy had to be gazetted for comment. She asked whether all the questions should be answered prior to gazetting the pricing strategy, or whether the 90-day period after it was opened for gazetting could be utilised to answer some of the questions.

Dr Pegram pointed out that the deadline was not 31 March 2014; it was effectively August 2013, as the tariffs required finalisation in August 2013. The 90 day gazetting period had to end by August 2013 or September 2013 at the latest.

The Chairperson asked what he could expect from the technical team by the next PSC meeting in terms of the way forward and the gap analysis. Ms Schreiner said that the critical issues from the work stream discussion would be plotted and the policy issues identified.

Action: Technical team

Ms Schreiner said that a decision needed to be made as to what would be gazetted at the end of March 2013 (the open or finalised document). The next deliverable was the draft pricing strategy, along with the socio-economic impact analysis.

Ms Schreiner hoped that at the PSC meeting there would be some discussion around solutions and that some alternative solutions could be tabled for some of the key issues that had been raised.

7. ANY OTHER BUSINESS

Mr Morodi said that the PMO office had received a report on a study by the CSIR, commissioned by the WRC, that might be of interest to the work stream members: "Valuing water for South African Industries: A production function approach."

8. CLOSURE

The meeting closed at 16:00.

APPENDIX 1: LIST OF ACRONYMS

Agri SA	Agri South Africa
CMA	Catchment Management Agency
CSIR	Council for Scientific and Industrial Research
DAFF	Department of Agriculture Forestry and Fisheries
DWA	Department of Water Affairs
IAPs	Invasive Alien Plants
MMTS	Mooi-Mgeni Transfer Scheme
NWA	National Water Act
O&M	Operations and Maintenance
O&M	Operations and maintenance
PERR	Pricing, Economic Regulation Reforms
PMO	Project Management Office
PPI	Producer Price Index
PSC	Project Steering Committee
PSP	Professional service provider
RoA	Return on Assets
RWPS	Raw Water Pricing Strategy
SAAFWUA	South African Association for Water User Associations
SALGA	South African Local Government Association
SANBI	South African National Biodiversity Institute
SASA	South African Sugar Association
TCTA	Trans-Caledon Tunnel Authority
WDC	Waste Discharge Charge
WDCS	Waste Discharge Charge System
WDM	Waste Discharge Management
WRC	Water Research Commission
WRM	Water Resource Management
WTE	Water Trading Entity
WUA	Water User Association

APPENDIX 2: ACTION ITEMS ARISING FROM THE PERR PRICING STRATEGY WORK STREAM MEETING OF 14 NOVEMBER 2012

<table>
<tr><th></th><th>Task</th><th>Responsible party</th><th>Due date (where indicated)</th></tr>
<tr><td>1</td><td>Ms Sigwaza would discuss project scope extension (the proposed inclusion of water services) and clarify the purpose of the inception group that had met the previous day, with Ms Mathe and Ms Ismail, within a week.</td><td>Ms Sigwaza</td><td>21 November 2012</td></tr>
<tr><td>2</td><td>Issues should be noted by the work stream members so that thought could be put into ways of addressing those issues prior to the next meeting.</td><td>Work stream</td><td></td></tr>
<tr><td>3</td><td>Mr Botha needed to be added to the work stream distribution list.</td><td>PMO</td><td></td></tr>
<tr><td>4</td><td>There would be an opportunity for work stream members to comment on the gap analysis document in writing, and the comments would be consolidated and circulated to the work stream members.</td><td>PMO</td><td></td></tr>
<tr><td>5</td><td>In the gap analysis document, the last point in the section on the Waste Discharge Charge, should read “all sectors are supposed to pay WDC, except forestry”.</td><td>Technical team</td><td></td></tr>
<tr><td>6</td><td>RoA needed to be changed to a more suitable term. The Work stream was encouraged to propose alternatives.</td><td>Technical team, work stream</td><td></td></tr>
<tr><td>7</td><td>Changing the term RoA in the pricing strategy would require changing the National Water Act (NWA). The change could be included in the general laws amendment bill that was about to be processed.</td><td>PMO</td><td></td></tr>
<tr><td>8</td><td>It needed to be verified whether the current pricing strategy made provision for an economic charge or not.</td><td>Technical team</td><td></td></tr>
<tr><td>9</td><td>The critical issues from the work stream meeting would be plotted and the policy issues identified.</td><td>Technical team</td><td>6 December 2012</td></tr>
<tr><td>10</td><td>The technical team would take the following suggestions from work stream members into account in their work:
Before discussing financial assistance, bad debt policy and the reasons why financial assistance was required should be engaged with.
The funds from schedule 1 users’ WRM charges were inadequate to support resource-poor farmers, and the five-year period for phasing in poor farmers was not long enough.
The WDC was important and needed to be implemented as soon as possible, particularly as it formed part of the pricing strategy.
Was PPI adequate to fund replacement costs over a ten-year time period?
There was a degree of inertia with regard to raising funds for future capacity increases. Possibly there should be more focus on raising funds for the servicing of debt.
Assets that delivered water to users needed to be sustained currently and in the future. RoA as currently referred to in the pricing strategy did not address the requirements needed to sustain those assets. It was important define RoA in public and not private sector terms.
It should be made clear in the pricing strategy who would fund the cap (agricultural subsidy).</td><td>Technical team</td><td></td></tr>
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