

The Austrian water sector

- An alternative approach to regulation

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Agenda

- Approaches to regulation
 - Austria, water provision without a regulator
- Tariff/Price setting
 - Tariff setting in theory and practice
 - Cost recovery
- Investment
 - Aligning incentives through investment subsidies

Overview Austria and its water sector

Bundesländer Österreichs, Gebietsstand 1.1.2009



- **Austria:**
 - 8 Mio. population
 - 9 provinces
 - 2350 municipalities

- **Water Origin:**
 - 51% ground water
 - 48% spring water
 - < 1% surface water

- **Type of Household provision (1997):**
 - 670 Mio. m³ centralized provision
 - 70 Mio. m³ decentralized (cooperatives, wells)

- **Household Consumption (2002):**
 - Approx. 150 l/p per day
 - Relatively stable

Approaches to regulation I

What is taught to economics students in Austria:

Two approaches to regulation

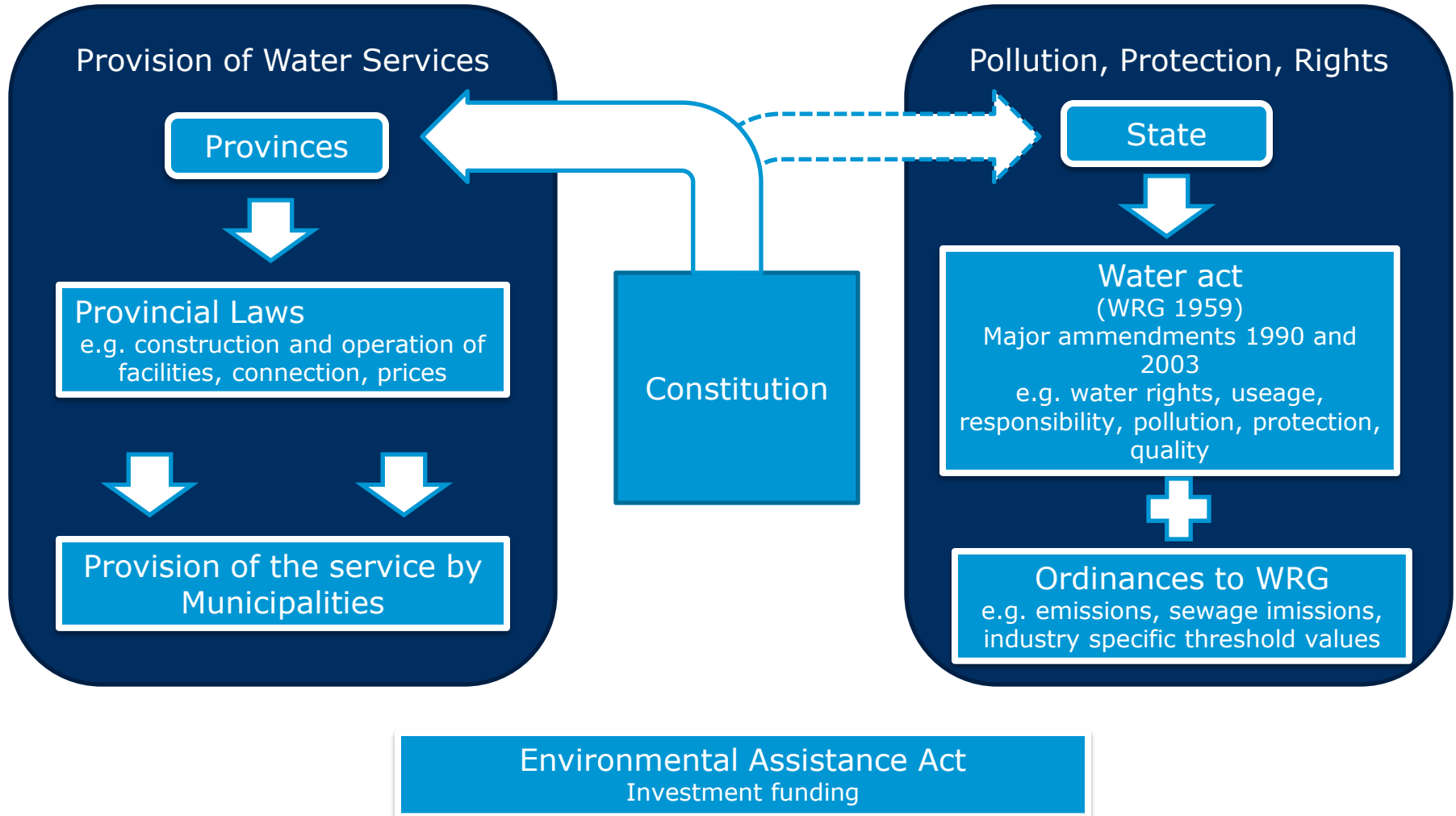
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graph TD; A[Two approaches to regulation] --> B[External regulation: Private firm, a regulator, a regulatory mechanism, etc. (e.g. UK, US)]; A --> C[Internal regulation: Public firm (e.g. Austria, Germany, Sweden)];
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External regulation:
Private firm, a regulator, a regulatory mechanism, etc.
(e.g. UK, US)

Internal regulation:
Public firm
(e.g. Austria, Germany, Sweden)

A system without a regulator...

EU Regulations/Directives
e.g. Water Framework Directive, Public Procurement, State Aid



Prevailing Organizational Forms

Organizational Structures

Public

Public
Private

Inhouse
provision

Corporatized
firms

Intermunicipal
associations

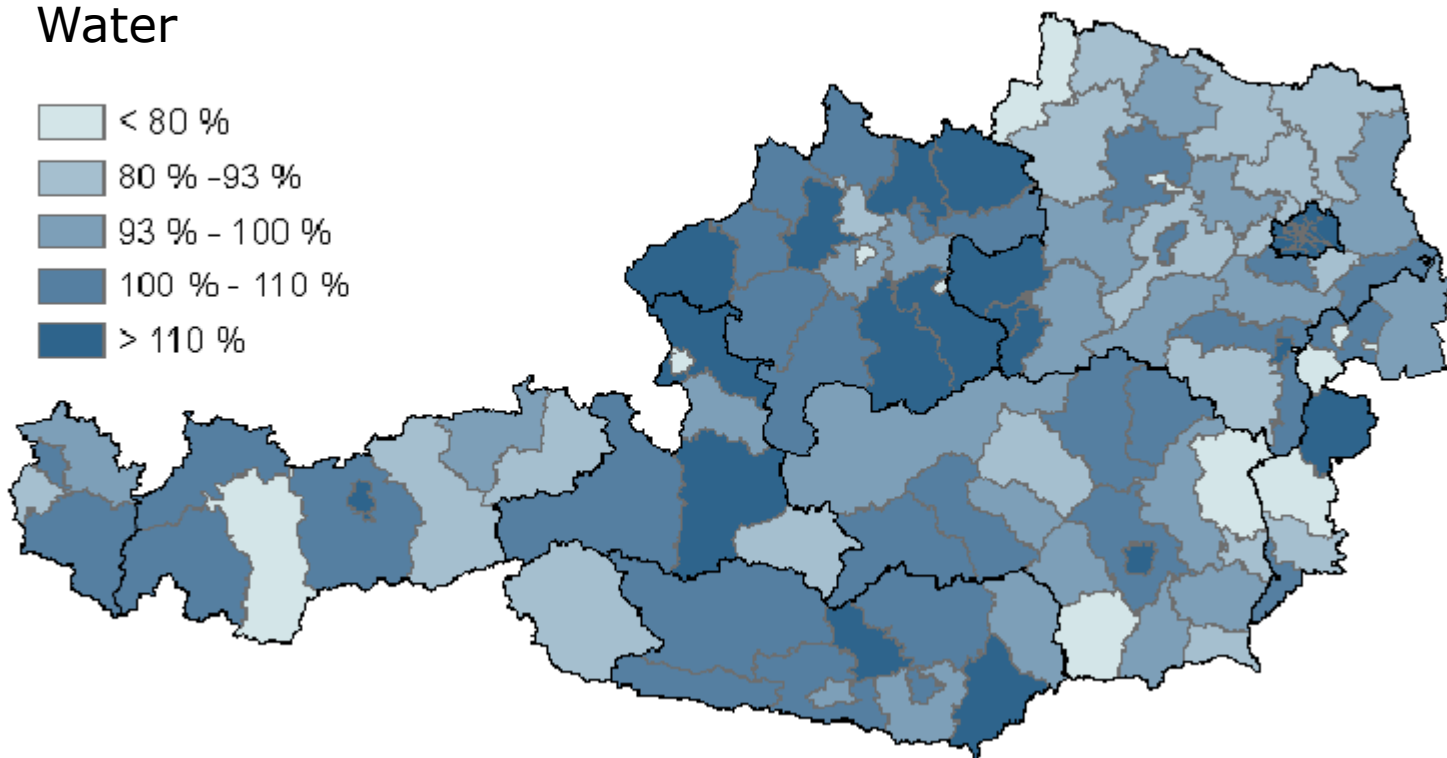
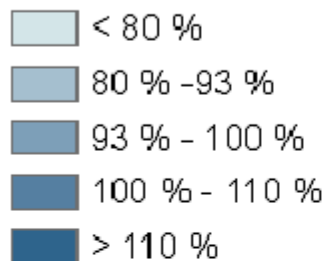
Mixed Public
Private firms

Water tariffs

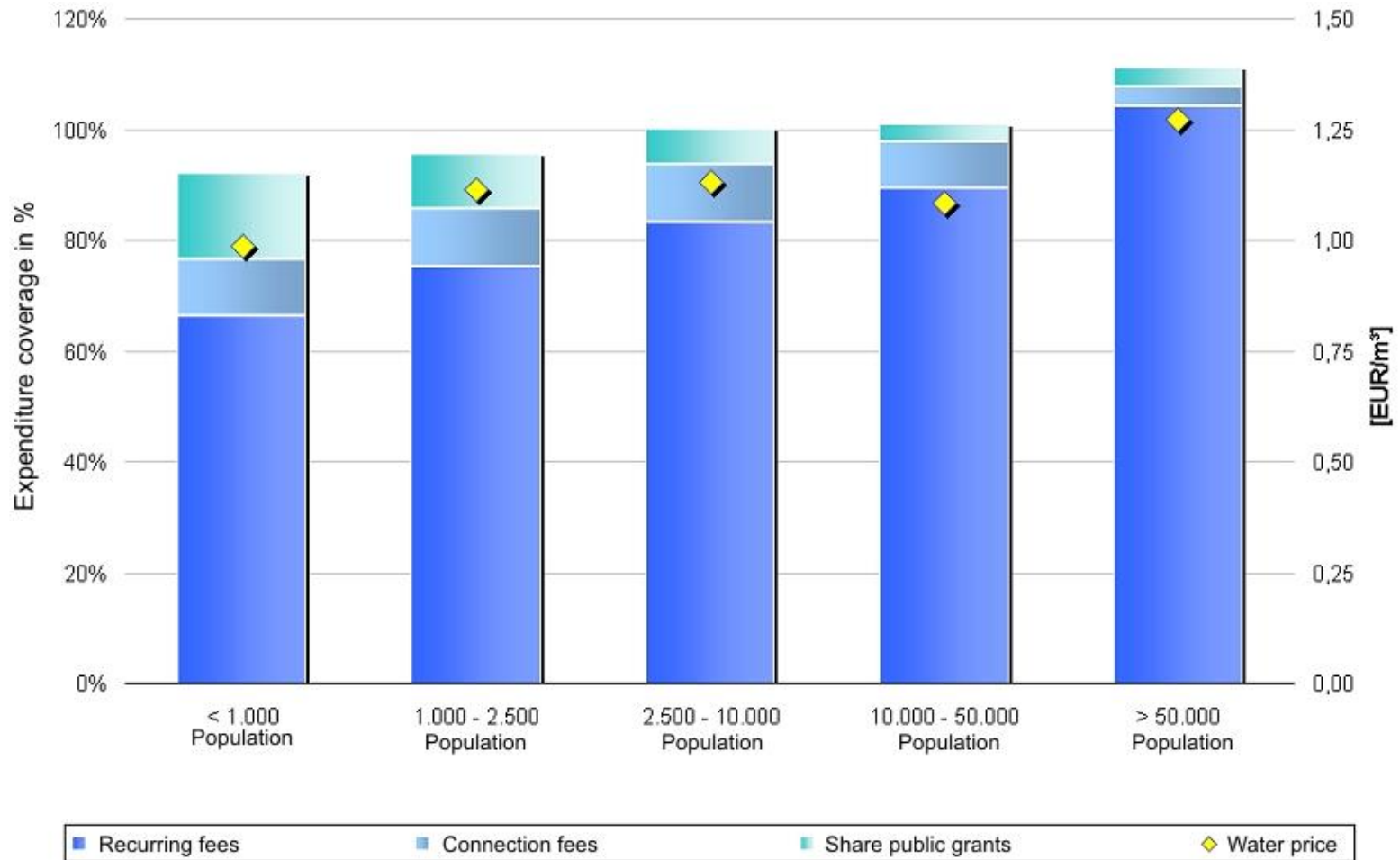
- Typical water tariff in Austria
 - Non-Recurring fees e.g. connection fees
 - Recurring fees are typically two part
 - You pay for each m³
- Setting of tariffs in theory:
 - Water tariffs should be set as to recover costs
 - Maria Salvetti: „water pays for water“
- In reality:...

Financing: Cost/Expenditure Coverage Water I

Water



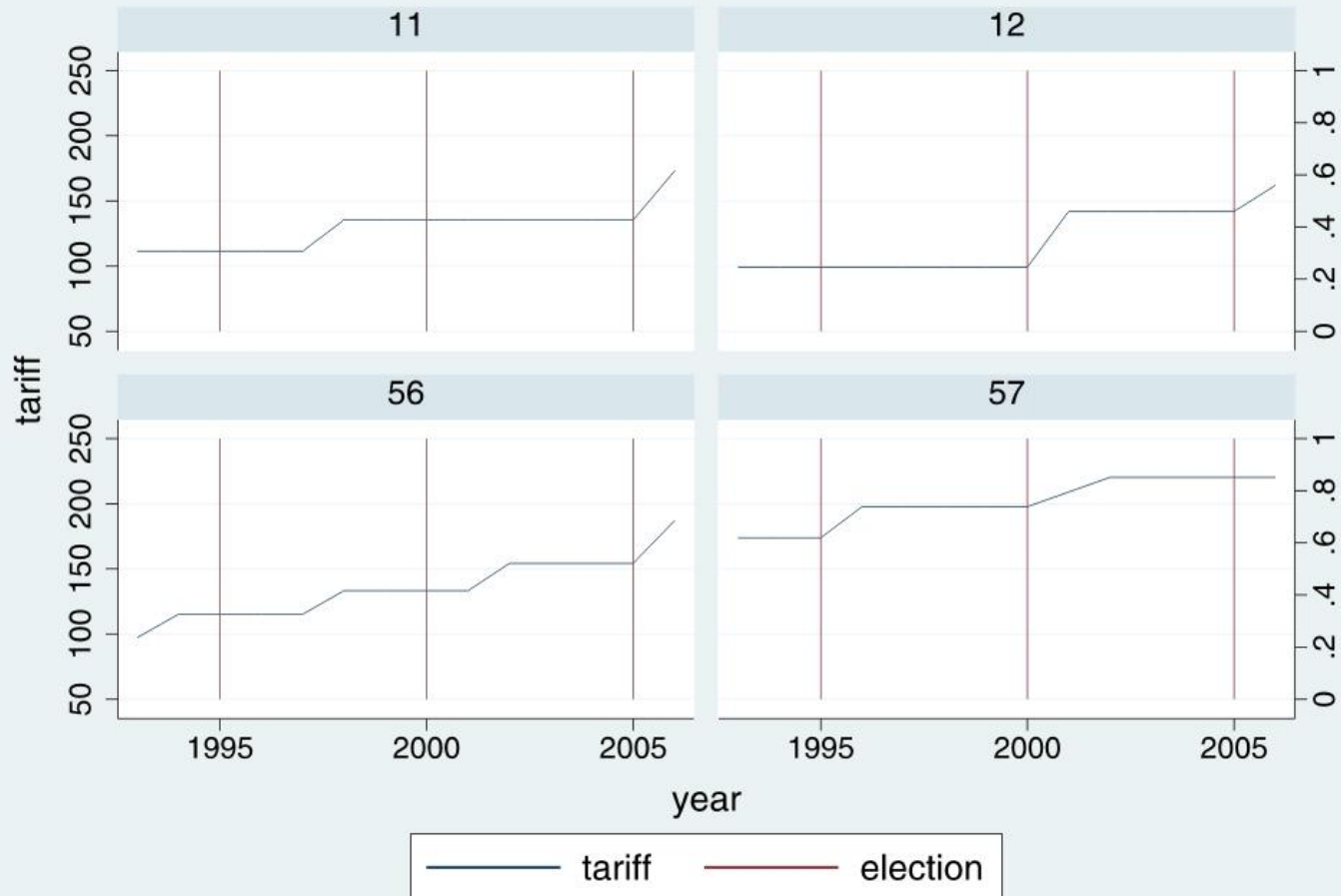
Financing: Cost/Expenditure Coverage Water II



Determinants of water prices

- Why distort prices?
 - In contrast to the problems with private firms who distort prices to maximize profits, public firms are affected by political incentives (re-election constraint):
 - Ideology
 - The strength of the local government
 - Election dates

Electoral cycle in tariffs



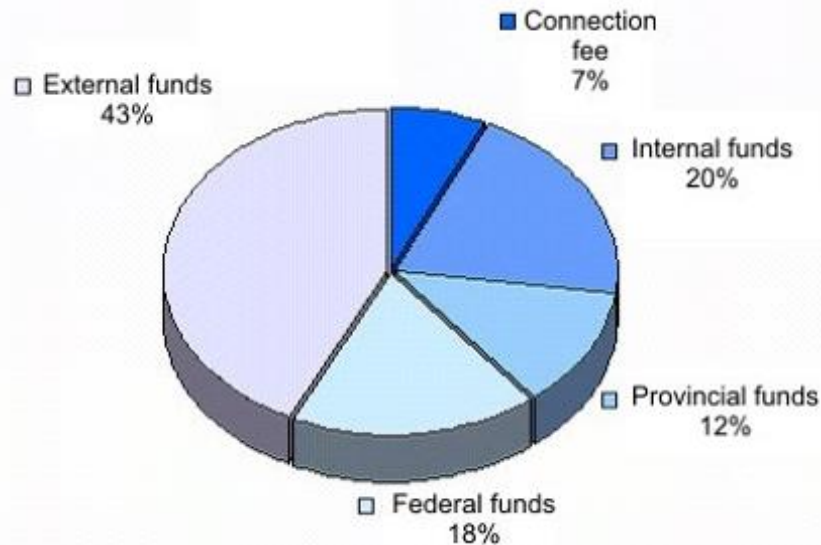
Graphs by munid

Financing of infrastructure

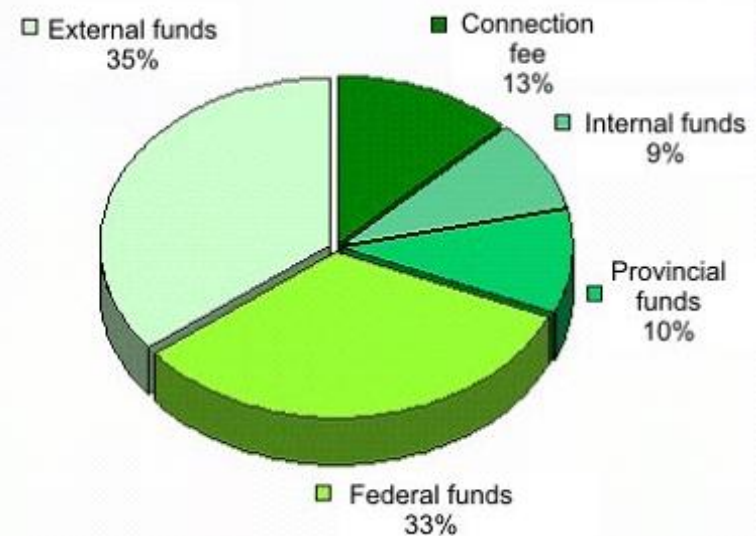
- Underinvestment in infrastructure
 - As a central problem in water/sewage
 - Of both public and private firms
- The Austrian approach to ensure quality of network is through a grant system of investment subsidies
 - 200-300 million € per year
 - Current reform to shift focus to smaller and poorer municipalities

Financing structure of investment:

WATER



SEWAGE



- Public Investment Aid:
 - Accounts for 30 % in Water and 43 % in Sewage
 - Federal funding conditional on Provincial funding
 - Financed by tax revenues/general budget

Conclusion

- Service appears to work well:
 - Consumers are (very) satisfied with water services and perceive tariffs as fair (Eurobarometer 2004/2005)
 - Public opinion: there is not much to gain but a lot to loose
 - Resistance against new concession directive
- Infrastructure investment and network quality:
 - Largely ensured through investment subsidy scheme
 - Shows important role of regional/federal government in this type of regulation
- How to deal with (political) price distortions?
 - Rule based tariffs system (does not seem to work for Vienna)
 - Corporatization of public firms
 - A regulator?

The End

Thanks for your attention!!!