

WAREG views on the proposal of the European Commission for a revised Urban Wastewater Treatment Directive¹

Brussels, 7 March 2023

WAREG welcomes the European Commission's Proposal for a revised UWWTD, currently under discussion in the European Parliament and the Council of Ministers of the EU. Over 30 years have passed since the adoption of the original text, and a revision was necessary to address shortcomings and new societal needs. The Proposal constitutes an ambitious but necessary document that set the path for the water sanitation sector in the following decades.

WAREG acknowledges some concerns regarding the economic costs of the interventions and their feasibility in the indicated timeframes. The uniform implementation of the Proposal's objectives will be complex considering the current state of the sector (such as the diversity between different Member States and within their own territories), and the efforts that will be required to implement additional treatments and energy neutrality targets.

Despite this challenging context, WAREG supports the direction outlined by the objectives set in the Proposal. WAREG reiterates the commitment of its members in the promotion, implementation and compliance with the EU acquis.

1. Summary of the Proposal.

The current Urban Wastewater Treatment Directive (UWWTD) was adopted in 1991. The implementation of this Directive has led to a significant reduction in the adverse effects of wastewater discharges from urban sources. On October 2022, the European Commission (EC) presented a Proposal to Revise the UWWTD (COM/2022/541 final).

The Proposal aims to address shortcomings and new societal needs. Namely:

- to further reduce pollution from urban sources (Articles 3, 4 and 5);
- to update and include new limit values for the treatment of pollutants (Articles 6, 7, 8 and Annex I); and
- to align the UWWTD with the European Green Deal by setting an energy neutrality objective and improving sludge management and wastewater reuse (Articles 11, 14, 15, 20 and 21).

Additionally, the Proposal includes several provisions to improve the transparency of the sector, by:

¹ COM(2022) 541 final of 26 October 2022



- ensuring that relevant information is made available to the general public (Article 24 and Annex VI); and
- enhancing the methodologies used to monitor and report on the implementation and compliance with the Directive (Articles 9, 10, 17, 21, 22, 23 and Annex I).

2. Implementation of the proposed Directive.

Implementing the measures contained in the proposed UWWTD can entail higher financial costs (from stricter and broader treatments) and environmental costs (from higher energy demands that increase levels of greenhouse gas emissions).

2.1. On implementation costs.

The Explanatory Memorandum of the Proposal forecasts that by 2040 the total cost to implement its measures would amount to EUR 3,8 bn per year, below the expected monetised benefits (EUR 6,6 bn per year by 2040). These additional costs would be covered by a combination of water tariffs (51%), public budgets (22%) and the new system of producer responsibility (27%) (Articles 9, 10 and Annex V).

The Proposal forecast that the average increase in water tariffs would amount to 2,26% at the EU level, with some differences between the Member States depending on their financing strategies. These estimations may be too prudent in certain Member States, where a more significant increase in tariffs will be required to cover the financial implementation costs. Furthermore, additional factors, such as the increase in energy prices, may contribute to even higher implementation costs for the sector.

2.2. On the risk-based approach of interventions.

The revision of the UWWTD aims to further reduce pollution in Europe's water bodies and contribute to a better environment. To achieve this target, it is fundamental to assess the origin of the pollution problems and to follow a strong risk-assessment approach that identifies those specific areas that require investments to improve the quality of wastewater treatment. A "one-size-fits-all" approach that does not match the specificities of each region may not be suitable for solving non-compliance cases with the UWWTD. Implementation measures should consider that local conditions in each Member State may differ depending on the geographical area, climate conditions, the type of water body where waste water is released, and the number and type of users of wastewater services. The risk-based approach has been the primary approach of other sensitive Directives, such as the Drinking Water Directive. This approach should remain the cornerstone of the revised UWWTD and be further developed to effectively achieve the targets set in the proposal at sustainable and balanced costs.

2.3. On cost recovery.

WAREG supports introducing the "polluter pays" principle to the wastewater sector through Extended Producer Responsibility (EPR) schemes, as it is already happening in the solid waste



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sector. Hence, the cost of implementing quaternary treatment to remove certain pollutants falls on the industrial sectors responsible for their production².

WAREG stresses the importance of fully implementing and maintaining the EPR to avoid overburdening the majority of additional costs on the tariff systems. Control at source measures can help mitigate the economic impact of certain measures on the sector and its customers.

According to the Proposal, even with the full implementation of the EPR, tariffs will remain the main source to cover the implementation costs of the Directive (51%). WAREG considers that tariffs are efficient tools to recover operational costs as their impact can be mitigated by increasing efficiency. In order to prevent excessive tariff increases, public authorities must ensure that any potential increase is explained to customers and that the efficiency of those increases is monitored.

2.4. On potentially new business streams for regulated water companies.

The implementation of these measures will entail additional costs for wastewater operators. However, some of these measures could become new income streams (e.g., sludge commercialisation) for operators. Therefore, public authorities would have to monitor the following:

- Whether the costs to develop new income streams are included in the wastewater tariff (borne by its consumers) during the implementation phase; and
- Whether any marginal profit from selling activities is passed to the "customers" tariffs.

Public authorities would have to consider the application of strict accounting rules to separate market activities from non-market (regulated) activities in order to avoid cross-subsidisation between such activities.

3. Improving transparency of information.

The proposed Directive significantly improves the disclosure of information to customers. WAREG welcomes these efforts and stresses the importance of maintaining the transparency provisions in Article 24 and Annex VI. Furthermore, this information available to the Public should be kept consistent and in line with the one required by the DWD (Article 17 and Annex IV).

As implementation costs will be covered mainly by tariffs, it is paramount to raise and promote consumer awareness on:

- Investment costs and operational costs of the sector; and
- How the costs of the sector are covered.

WAREG stresses the critical role that public authorities must play in:

- Preventing the risks of excessive increases (maintaining the affordability of the service);
- Committing that any potential increase is explained to consumers; and
- Monitoring the efficiency and the results of those increases.

² According to the point "Why will the "polluter pays" principle be introduced?" in the document "Questions and Answers on the new EU rules on treating urban wastewater" published by the EU Commission on 26 October, the EU Commission states that 92% of the toxic load in wastewater is attributable to the pharmaceutical and cosmetics sectors.



4. The role of economic regulation in the proposed UWWTD.

WAREG regrets that the Proposal misses an opportunity by not making any explicit reference to economic regulation. Member States are responsible for deciding which competent authorities or appropriate bodies will implement the provisions of the UWWTD and monitor and collect the required data.

The recognition of economic regulation (i.e. Regulatory Toolkits) in EU legislation can contribute to increasing efficiency and guarantee the uniformity and reliability of the data collected by Member States. In addition, WAREG members can contribute with their tools to promote the efficiency and innovation of the sector, increasing environmental sustainability, resource protection and the propensity to innovation through tariff incentives.

4.1. Where can economic regulation contribute to the success of the proposed UWWTD?

Economic regulation can help those authorities entrusted with supervising compliance with the Directive by providing tools that allow a correct assessment of interventions to ensure that the implementation takes place successfully.

4.1.1. In data collection and validation.

It can ensure that adequate and up-to-date information is available to the EU institutions and the general public. In order to ensure the reliability of data, WAREG recommends that the data is collected and validated according to similar criteria and computational rules by similar entities throughout the EU.

Economic regulation can contribute to the transparency and reliability of the information by setting homogeneous targets (e.g., KPIs, name & shame, public reports) and compliance instruments (e.g., tariff penalties/incentives, monetary fines).

4.1.2. In balancing potentially conflicting objectives.

More stringent and additional treatment targets on pollutant removal may require more energy consumption, hindering energy neutrality targets. These conflicts can be offset through statistical models, and stick and carrots incentive approach that increase efficiency. WAREG members have activated innovation funds to encourage the water sector to find efficient and innovative ways to achieve environmental and efficiency targets, for instance, by developing less energy-intensive technologies. In addition, strengthening market instruments used by WAREG members (such as the awarding of white certificates) can further promote energy efficiency and reduce consumption in the wastewater sector.

4.1.3. In affordability.

The impact of additional and more stringent requirements on tariffs could be mitigated by operational cost-efficiency, maintaining the affordability of the service. Efficiency generated by tariff regulation can increase investments and decrease tariffs. Moreover, economic regulation can promote OPEX efficiency through different tools, including Key Performance Indicators-KPIs (For instance, by setting rewards for those operators that reach pre-defined efficiency targets).



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About WAREG

WAREG is the European association of public authorities with national or regional responsibilities to overview and regulate the water and wastewater sectors in the European Union and its neighbouring Countries. Created in April 2014, it comprises independent regulators, competition authorities, ministerial departments, and governmental agencies. WAREG members oversee over 300 million consumers in the EU (+400 million, including non-EU members and observers).

WAREG promotes the cooperation of its members and the common understanding of the key challenges of the drinking water and wastewater services in Europe. Our members exchange information and knowledge on tariff-setting methodologies, analyse sector data and key performance indicators, and collaborate to identify the most appropriate rules on cost-recovery and minimum service quality standards, that can create stable financial frameworks to attract the necessary capital investment, to set economic incentives to promote operators' cost-efficiency innovation and environmental sustainability, and to protect customers.

The association is based in Milan (Italy), hosted by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA), and has an institutional office in Brussels (Belgium), hosted by the Brussels Region Energy Regulatory Commission (BRUGEL).

Our activities can be followed online at www.wareg.org, on social media (LinkedIn and Twitter) and through our free monthly newsletter.



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