

Internal Water Pricing: CDP Disclosure Best Practice

CDP Corporate Questionnaire



Version

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About this technical note

Since 2018, CDP has been asking organizations to disclose their practice of using an internal water price. This technical note explains the purpose of internal water pricing and outlines the types of information CDP requests in Question 5.10 and 5.10.2. The aim is to support organizations in providing clear and consistent disclosure. Standardizing how organizations report on internal water pricing improves comparability and allows investors to better assess the credibility, robustness, and strategic relevance of an organization's approach.

1. Background

Traditionally, many businesses value water at the actual financial expenditure associated with its acquisition. This is known as the financial cost, which includes costs such as water utility bills, fees for water permits, and infrastructure maintenance. However, financial cost does not necessarily reflect the true value of water. Water pricing often focuses on cost recovery rather than capturing its full economic, environmental, and social value.

The true value of water includes the recurrent operation and maintenance cost of the supply system, the capital costs spread over the life of the system, the value of the water if it were used for other purposes, and adjustments for economic and environmental externalities. While these factors may influence financial cost calculations, “economic decision makers have long undervalued and overexploited freshwater ecosystems, resulting in severe impacts on the health of rivers, lakes, wetlands and aquifers” ([WWF, 2023](#)).

“The root cause of the difficulties involved in generating the investment needed to mitigate the water crisis is the widespread undervaluation and mispricing of water.” ([BCG in collaboration with OceanWell, 2025](#)). Undervaluation is the failure to recognize the true value of water, and mispricing is the use of flawed pricing mechanisms.

Applying an internal price on water that more accurately reflects the true value can help an organization understand efficiency opportunities and internalize the true value of water use. This management tool can be used to increase the investment needed to mitigate the water crisis and its risks to a business.

2. What is an internal water price?

An internal water price is a value assigned by an organization to represent the true value and importance of water within its operations. It goes beyond the financial cost of water procurement and serves as a strategic tool for resource management.

Key characteristics include:

- It is determined by the organization itself and reflects the internal assessment of the value of water.

- It includes not only the direct cost of procuring water but also factors in indirect costs, such as treatment and disposal.
- It incorporates considerations of environmental impact and sustainability goals.
- It is used as a tool to encourage efficient water use and internal resource allocation.
- It may vary between different regions, departments or processes within the organization.

3. Benefits of internal water pricing

Implementing an internal water price offers multiple benefits:

- Risk Management: Reduces exposure to water scarcity and regulatory risks.
- Cost Efficiency: Encourages operational improvements and resource optimization.
- Strategic Decision-Making: Integrates water considerations into capital planning and procurement.
- Policy alignment: Supports frameworks such as [UN Sustainable Development Goal 6](#).
- Reputation and Investor Confidence: Demonstrates proactive water stewardship.

“Companies with an internal price on water report the financial benefit of efficiency-related opportunities to be six times higher than those reported by companies without one.” - [Riding the Wave, CDP, 2023](#)

4. Within the CDP Questionnaire

4.1. Question 5.10: Does your organization use an internal price on environmental externalities?

In recent years, CDP has observed growing interest in internal water pricing as organizations seek tools to better understand and manage water-related risks. Although the use of internal water pricing is still emerging, the number of organizations reporting that they apply, or plan to apply, an internal water price has increased as awareness of water scarcity, regulatory pressures, and basin-level risks has continued to rise. This trend reflects the growing recognition that water risks are becoming more significant across sectors and geographies.

4.2. Question 5.10.1: Provide details of your organization’s internal price on water.

The concept of using an internal water price is relatively new, which has led to some confusion about how to implement it (see [Watermag, 2005](#)). Internal carbon pricing is more established, and while the economic characteristics of carbon and water differ, the process for implementing a carbon price can be a helpful reference for developing an internal water price.

For further details on internal carbon pricing processes, see:

- [CDP Carbon Pricing Technical note](#)
- [How-To Guide to Corporate Internal Carbon Pricing: Four dimensions to best practice approaches, Ecofys, The Generation Foundation and CDP, 2017.](#)

4.2.1 Objectives for implementing an internal water price

Clear objectives can help determine key decisions, such as the type of price, factors to consider, and the business decisions the price will inform.

Common objectives include:

- Drive water efficiency
- Incentivize consideration of water-related issues in decision making
- Drive water-related investment
- Set and/or achieve water-related policies and targets
- Identify and seize low-water impact opportunities

A well-defined objective will guide the selection of the pricing mechanism and provide a basis for evaluating effectiveness over time.

4.2.2 Type

Organizations can choose from several types of internal water pricing mechanisms.

Types of internal water prices include:

- **Shadow pricing** – where a hypothetical cost is attached to water usage (per cubic meter) – a shadow price can be used in investment decisions or to set budgets, but no actual financial flows are generated.
- **Implicit price** – an implicit price is calculated retroactively, after an organization achieves its desired environmental reductions/targets. Where the cost of water abatement/treatment is divided by the quantity used.
- **Internal fee** – mechanisms that charge responsible internal business units for their water impacts (including consumption and discharges). An internal fee mechanism approach results in actual financial flows as the collected revenue is reinvested back into technological advancement and other activities that help the organization achieve its environmental targets
- **Internal trading** – mechanisms that allow internal business units to trade allocated credits for water usage. While this is common in internal carbon pricing, due to the localized nature of water risks, this may be less suitable for an internal water price.

4.2.3 Factors considered in the price

Note that an internal water price must consider factors beyond the direct financial cost of water.

When reporting an internal water price, it is important to disclose the factors considered when determining the price. This helps data users understand whether the organization has considered the factors needed to meet its objectives.

Examples of factors to consider are:

- Alignment to scientific guidance;
- costs of treating water;
- scenario analysis;
- current and future water tariffs; and
- social cost of environmental impact.

For example, an organization that wants to encourage consideration of water-related risks can use scenario analysis to help identify regions where water stress may become a significant issue in the future. If water availability decreases in those areas, water prices may rise. The organization can factor this into an internal water price, which is then used to guide long-term investment decisions.

Previous disclosures showed that the concepts of water cost, price and value were often incorrectly used interchangeably. To improve clarity, organizations can explain how they understand the relationship between their internal water price and the value of water, alongside the methodology and assumptions used to determine that price. Including this narrative helps data users assess whether the pricing approach aligns with the stated objectives and the factors considered in setting the price.

4.2.4 Price variance

Organizations using internal water pricing should clearly disclose how price levels vary across geographies, business units, and over time. This information helps data users understand whether the pricing approach reflects local water conditions and evolving risks.

Spatial variance

Uniform pricing: a single price that is applied throughout the organization independent of geography, business unit, or type of decision.

Differentiated pricing: a price that varies by region, business unit or type of decision.

Temporal variance

Static pricing: a price that is constant over time.

Evolutionary pricing: a price that develops over time.

Because water risks are location-specific, differentiated pricing is common. The value of water in high-water stress areas may be significantly higher than in other areas, and changing basin conditions or regulatory developments can increase the costs of water over time. Disclosing these variations helps data users understand whether the organization's approach reflects local conditions and future risk.

4.2.5 Business application

An internal water price can be applied across a range of business decision-making processes. When organizations disclose how and where the price is used, it helps data users understand the role it plays in shaping operations, allocating resources, and managing water-related risks.

Each organization has a unique application approach based on multiple factors, such as an organization's internal corporate governance structure, dependencies on water resources, position in the value chain, and intended objectives. In fact, some organizations deploy multiple mechanisms within their organization to achieve distinctly different outcomes. In some cases, the internal water price acts mainly as a signal to encourage teams to account for water-related issues. In others, applying the price is required as part of project approval or financial evaluations.

Assessing an organization's pricing approach involves understanding how the tool is applied to business decisions, and the level of influence it has on the decision-making process (i.e. to what degree does an organization enforce the use of the price).

Commonly disclosed operational applications include capital expenditure decisions, operational decisions, procurement decisions, product and R&D decisions, and remuneration decisions.

4.2.6 Impact and implications

An effective internal water price should influence business decisions and positively support the objectives. Monitoring and reporting impacts is essential to demonstrate that the internal pricing mechanism is delivering value and supporting organizational objectives.

Organizations often report:

- Whether the price revealed material risks or highlighted high-cost areas of water dependency;
- How the pricing exercise influenced capital allocation or strategic investment decisions;
- If it contributed to progress toward environmental targets;
- Any changes it drove to procurement, operations, or site-level planning;
- If it shifted investment toward efficiency, reuse, or low-water alternatives.

If the internal water price has not influenced decisions, data users want to understand why.

Reflecting on the impact, or lack thereof, it is also important to report any plans to refine or evolve the approach to internal carbon pricing in the future.