

## Pricing

Pricing programs, if properly designed, can earn extra revenue for a utility as consumption drops. (If the utility is unmetered, pricing cannot be used because water charges are not based on consumption.) Pricing has been shown to be most effective for long-term, low percentage, average or peak goals -- especially in encouraging reduction of residential peak use and of commercial/industrial average use.

The costs of a pricing program are mostly one-time costs. The utility has to set up a new billing system and, in most cases, a rate survey or cost of service study would be highly advisable.<sup>24</sup>

The principle goal in setting water rates is to secure sufficient revenue to offset costs, or in the case of a few commercial companies, to achieve a profit. Other goals should be that the pricing system is "equitable" and discourages "waste."<sup>25</sup>

Five common pricing systems are briefly described in Table 6. A flat rate and a declining block rate are the least equitable and do not promote elimination of waste. Although the uniform rate is considered equitable, it often has only a minor effect on waste. The increasing block rate and the peak load, or seasonal rate may offer the greatest opportunity for discouraging waste.

The key to an effective water pricing policy from the standpoint of conservation is to make it clear to the user that he can save money by minimizing water use. Therefore, the increase in water costs for quantities above the reasonable minimum required must be great enough to attract attention and become a factor of special concern in his budget or operating expenses. Pricing systems, such as the increasing block rate and the peak load (or seasonal) rate, offer an opportunity to