

- A. Express the percentage reduction goal numerically, if this has not already been accomplished.
- B. Estimate how much water use will drop after the price goes up, i.e., elasticity value for your community.
- C. Determine percent of change in price needed to achieve the goal. Take the percent reduction goal (from Step A) and the elasticity value (Step B) and plug it into the elasticity equation. Solve the equation to arrive at the percent change in price.
- D. Determine what the new revenues will be as a result of the new price level.
- E. Compare the new revenues with your costs (remember variable costs will drop as water use drops). If the revenues are too low, you may need a higher price; if the revenues are too high, you may need a lower price; or a new price structure may be selected that will change revenues.
- F. Pick a structure. There are at least 20 different kinds of price structures that can be used to modify price levels so that the total water rate (level and structure) can achieve one or more of the following:
  - 1. Reduce demand to achieve a conservation goal;
  - 2. Cover the true cost of supplying water;
  - 3. Be fair to all users in the service area;
  - 4. Reflect the point at which user demand is influenced in the service area; and/or
  - 5. Be politically acceptable.

(Note: A discussion on common price structure is contained in Chapter III.)

Any water rate has the ability to recover the total cost of service if the price level is high enough. When costs are compared to new revenues, it is important to include all costs -- including those of the conservation program itself -- so only one price hike will be necessary within a short period of time. Otherwise, a public utility may face overwhelming opposition and a loss in users' confidence.