



# **Pricing Matters: The Role of Rates in Promoting Sustainable Water Management**

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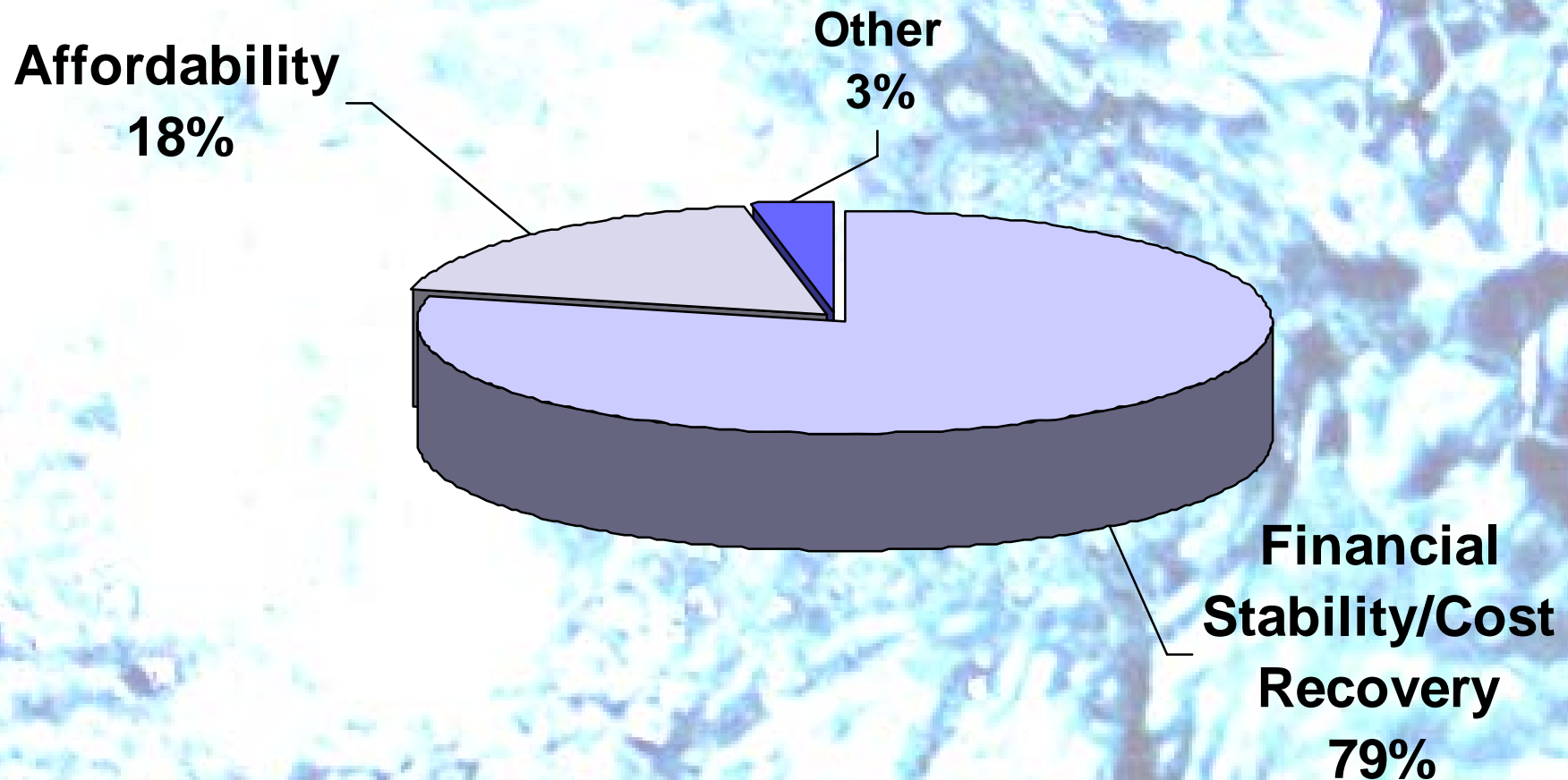
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# In an Ideal Pricing World

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- **Prices cover full “costs” of service**
- **Ability to pay is recognized and addressed**
- **Prices send and reinforce strategic messages**
- **Beneficiaries pay for their benefits**
- **Polluters pay for their pollution**
- **Simplicity abounds**

# A Utility's Pricing World – Rate Setting Priorities



*Source: EFC & NCLM 2005 Rate Practices Survey (277 Utilities)*

# Partial Cost Pricing

<b>Water and WW Bill (\$/mo)</b>	<b>Operating Revenues / Expenses Ratio</b>
<b>\$32.07</b>	<b>0.99</b>
<b>\$32.10</b>	<b>1.02</b>
<b>\$32.30</b>	<b>0.88</b>
<b>\$32.98</b>	<b>1.02</b>
<b>\$33.88</b>	<b>0.76</b>
<b>\$34.08</b>	<b>1.50</b>

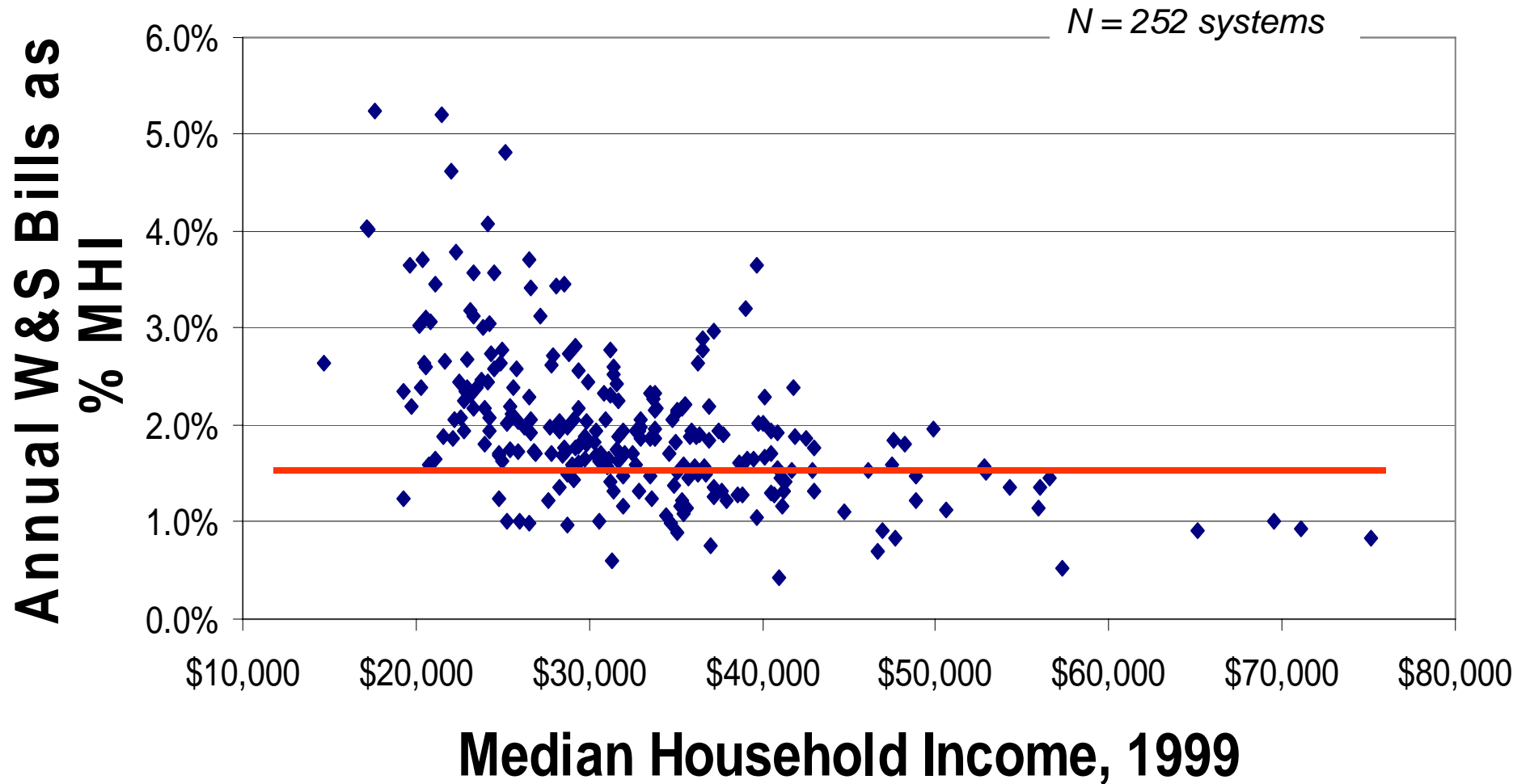
*Sources: NC LGC FY04-05 financial data; FY05-06 Rate Schedules.*

# Some Costs are Fuller than Others

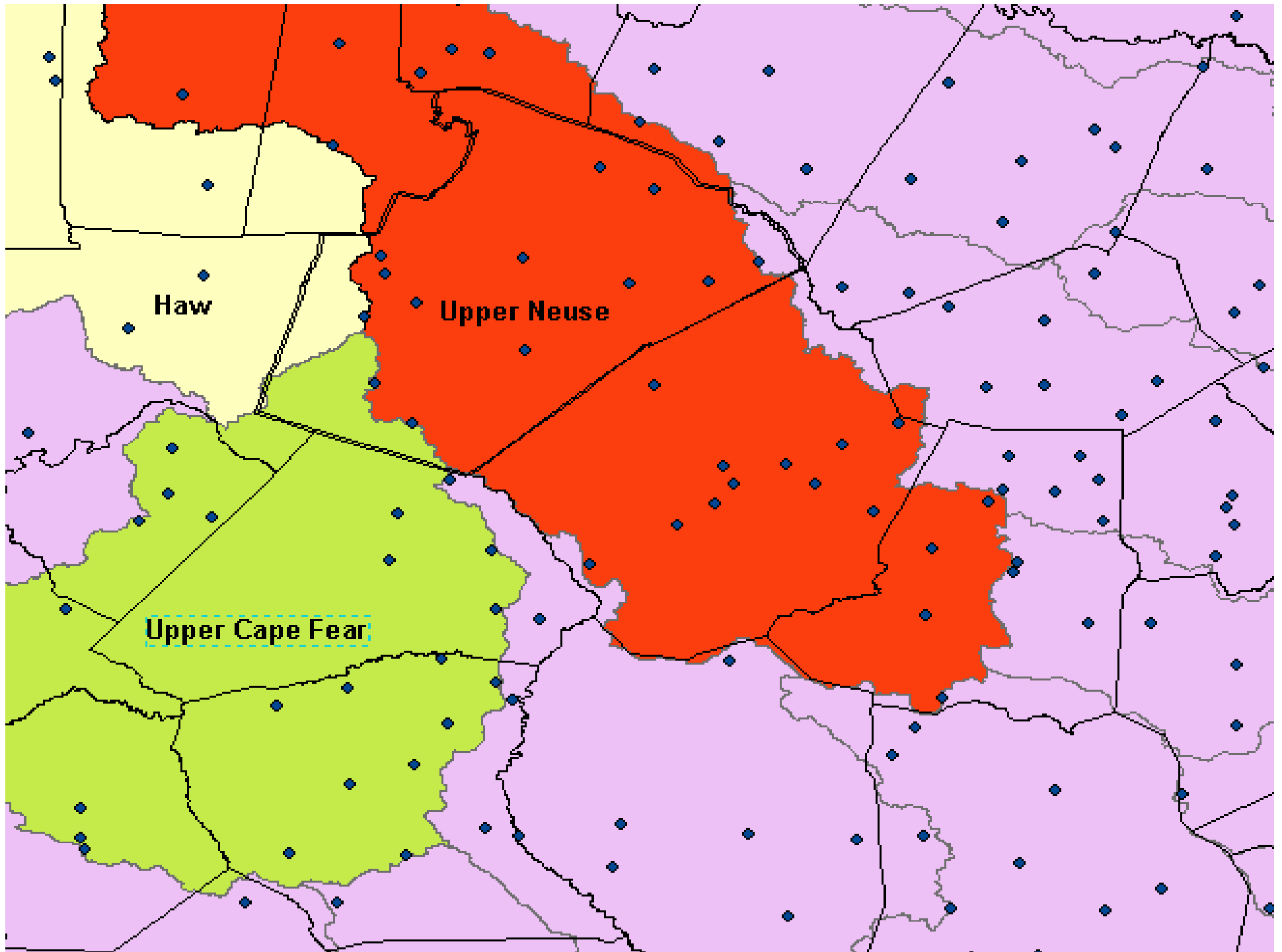
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- **Operating expenditures**
- **Reactive maintenance**
- **Mandated watershed/water quality protection**
- **Capital to serve new customers**
- **Proactive maintenance**
- **Asset management/capital rehabilitation**
- **Non-mandated watershed protection**

# Comparison of Median HH Income with Combined Water and Sewer Bill as % MHI (Inside Rates)



Source: FY05-06 Rate Schedules; Census 2000.



# Drop in Bill when Consumption Is Decreased from 10,000 to 6,000 gpm

	<b>Percent of Utilities</b>	<b>Median Drop in Bill</b>
<b>Decreasing</b>	<b>24%</b>	<b>\$9.64</b>
<b>Uniform</b>	<b>56%</b>	<b>\$11.20</b>
<b>Increasing</b>	<b>20%</b>	<b>\$13.16</b>
<i>All</i>	<i>100%</i>	<i>\$11.22</i>

***Approximately 1/3 rd of utilities with increasing block structures have a bill reduction less than the median bill reduction of utilities with decreasing block structures.***

*Source: FY05-06 Rate Schedules.*

# Starting Points

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- **Fuller View of Costs Behind Prices**
- **Know your customers**
- **Rate structures matter -- look beyond decreasing vs. increasing**
- **Subsidize with care**
- **Compare with caution**
- **Watershed approaches require watershed revenues**



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