DRAFT

Water Pricing

Description

Water pricing can be used as a tool to reduce the demand by agricultural and urban users for water. Different water rate structures serve to encourage or discourage water consumption. An important role of water prices (or rates) is as a signal to users about the cost of increasing sources of supply or of delivering water during drought periods when supplies are more expensive. Such prices can, therefore, encourage more efficient use of water. The actual volume of water saved by increasing water prices depends on the elasticity of water demand, which varies by area, type of user, and seasonal hydrological cycles. Rate designs can be structured to achieve different policy objectives. For example, a variable design that charges more for water during droughts could reduce demand during drought periods but may reduce the conservation incentive during normal and wet years, possibly encouraging greater overall water use. In addition, fees such as drought surcharges or new development fees can be used to achieve different equity objectives.

This category includes the following actions:

- establish incentives for pricing to reduce demand,
- educate users about pricing feasibility, and
- remove legal obstacles to pricing.

Purpose

Water pricing can be an effective means of influencing the demand for water and can result in more efficient use of scarce water resources. Water pricing structures can result in more efficient use of scarce water resources by more accurately capturing the value of water in market prices based on the consumer's willingness to pay for the commodity. Water pricing changes may reduce the need for additional water exports and reduce the conflict between water supply and ecosystem needs.

Constraints

Changing water pricing policies to reduce the demand for water is constrained by the need to achieve other potentially conflicting policy objectives. The current structure of water prices includes relatively flat water rates and price subsidies that benefit certain users. Eliminating these subsidies could result in undesirable economic effects to disadvantaged sectors of the economy. In addition, increasing water prices could result in revenue shortfalls if the demand for water decreases

substantially. Some legal obstacles would need to be removed to implement some price structure changes.

Linkages to Other CALFED Action Categories

Water pricing is a tool that can increase the effectiveness of water conservation, water reclamation, and water transfer actions by increasing inducements to undertake these actions. It may also serve as a tool to be used in contingency planning for future droughts.