

## Conservation Pricing

**Conservation Pricing:** Currently, all users of the City's water and sewer services are charged the same rate.

### Background

The concept of conservation pricing (charging large users of utilities like water, electricity, and wastewater drainage at a higher rate) aims to encourage efficient use of resources and reduce waste by providing financial incentive for bulk users to decrease consumption and waste. Because electricity taxes in Chicago are not controlled by the City, this document focuses on water and sewer fees.

The Department of Water Management operates and maintains the City's water and sewer systems, providing water to all of Chicago and 125 suburban communities, and providing sewer services to all of Chicago and a smaller number of suburban communities. The Department of Water Management is responsible for delivering nearly 1 billion gallons of fresh pure water every day.

All customers who receive water from the City are charged the same flat rate for water, which in 2015 is \$3.81 per 1,000 gallons. Sewer fees appear as a separate line on the water bill but are based on water usage. In 2015 that rate is 100% of the water bill.

Although the largest users of water are the suburban municipalities, consuming 57 percent of all water supplied by the City, the City has a number of commercial and industrial users who consume large quantities of water. Together, commercial and industrial consumers use 17 percent of all water supplied by the City. The top one hundred commercial and industrial users of the City's water in 2014 consumed more than 4.4 billion gallons of water, and paid more the \$25 million. The City does not have the capacity to track wastewater in the same way, so the top contributors to wastewater cannot be determined.

### Revenue Impact

Any revenue from an increase in water or sewer fees would need to flow into the water and sewer funds, respectively, and could not be used to fund general City operations.

Revenue from a tiered pricing system for water consumption would depend on the rates offered, the thresholds at which those rates would increase, and the consumers to which tiered pricing applies. It is unclear to what extent suburban municipalities could be charged tiered rates.

One example of tiered pricing could include thresholds at 20 million and 100 million gallons, and be applied only to commercial and industrial consumers. In this scenario, a 25% increase to \$4.76 per 1,000 gallons when a consumer reaches 20 million, and a 50% increase to \$5.72 when a consumer reaches 100 million gallons, could yield an estimated \$2.7 million in additional revenue to the Water Fund (at 2014 consumption levels). Some cost would be incurred by the City to adjust the pricing structure.

### Legal Authority

Generally, increasing water fees is within the City's authority and would require amendment to the Municipal Code. However, certain restrictions apply under agreements with other municipalities, etc. Any tiered pricing system, pursuant to State law, must be structured in such a way that it is reasonable and nondiscriminatory. In addition, It is unclear to what extent suburban municipalities could be charged tiered rates.

### Other Cities

Several U.S. cities utilize tiered pricing systems for residential consumers. Santa Fe offers the most drastic increase, with heavy users paying up to four times the rate of smaller users. The average family using 50 gallons per day in Santa Fe pays a monthly bill of \$55, while the average bill for a family using 100 gallons is \$154, or a rate approximately 40% higher.<sup>1</sup> Other cities, like Washington, D.C., charge a flat rate for non-residential consumers, but the rate, at \$5.33 per 1,000 gallons, is 29% higher than for small residential consumers.

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<sup>1</sup> For a larger comparison of water rates in other cities, see the results of Circle of Blue's *2014 Water Pricing Survey*: <http://www.circleofblue.org/waternews/2014/world/price-water-2014-6-percent-30-major-u-s-cities-33-percent-rise-since-2010/>