



## Water: Sustainable Infrastructure

You are here: [Water](#) » [Water Infrastructure](#) » [Sustainable Infrastructure](#) » Pricing Structures

# Pricing Structures

Prices signal value to consumers and help determine whether consumers use water efficiently. If prices are too low, consumers will use too much water. It is also essential that the pricing of water services covers the costs of providing service, for both operations and maintenance and capital expenses.

Economists have long advocated the "polluter pays" principle—the idea that the polluter or consumer should pay for any environmental damage or resource depletion created. While this principle is generally accepted in the classroom, its application in the real world is much harder to find.

**Full cost pricing** is usually interpreted to mean factoring all costs—past and future, operations, maintenance and capital costs—into prices. Full cost pricing can take the form of any of the rate structures discussed below, so long as all costs are recovered through prices.

## Pricing Structures and Conservation

Several price structures are available for water and wastewater providers seeking to encourage conservation.

Price Structures that Encourage Conservation	
<b>Increasing block rates</b>	Increasing block rates or tiered pricing reduces water use by increasing the per-unit charges for water as the amount used increases. The first block is charged at one rate, the next block is charged at a higher rate, and so forth.
<b>Time of day pricing</b>	Higher prices are charged during a utility's peak demand periods.
<b>Water surcharges</b>	A higher rate is imposed on "excessive" water use (i.e., water consumption that is considered higher than average).
<b>Seasonal rates</b>	Prices rise and fall according to water demands and weather conditions (with higher prices usually occurring in the summer)

### Sustainable Infrastructure Quick Links

[Needs & Funding Gap](#)

[Water & Energy Efficiency](#)

[Financing & Pricing](#)

[Pricing Structures](#)

[Affordability Considerations](#)

[Pricing FAQs](#)

[Pricing Resources](#)

[Asset Management](#)

[Alternative Tech & Assessment](#)

[Resources](#)

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[Consumers](#)

[Utilities](#)

months).

### Price Structures that are Less Effective in Encouraging Conservation

<b>Uniform rate structures</b>	A uniform rate charges the same price-per-unit for water usage beyond the fixed customer charge, which covers some fixed costs. The rate sends a price signal to the customer because the water bill will vary by usage. Uniform rates by class charge the same price-per-unit for all customers within a customer class (e.g., residential or non-residential).
<b>Flat fee rates</b>	Flat fee rates do not vary by customer characteristics or water usage.

## Resources

EPA has produced numerous documents on pricing and the relationship between pricing and water conservation for water and wastewater systems. Visit the [Pricing Resources](#) page for these and other resources.

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