Tiered Rate Structure

The term "tiered rates" typically refers to a "block" type of rate structure where the unit price of water changes with each of several preset consumption blocks for each billing period. For example, from 0 to 10 units is one unit price, from 11 to 100 units a different unit price, from 101 to 1,000 units a third unit price, etc.

Typically there are three to five different tiers or rate blocks, where the unit price increases with each higher level (or tier) of consumption. This type of "increasing block rate" is utilized to send a strong conservation message to customers. The intent is to set the tiers to encourage reduced water use at higher usage levels over which the customer has some discretion. Unfortunately, the increasing block structure can penalize large customers, charging them a higher unit rate simply because they are large water users. These customers may be very efficient water users, and thus not deserving of a higher water bill simply based on usage. A typical solution to this problem is to have an increasing block structure that applies to one or more classes to encourage conservation (e.g. single-family residential customers), with a different rate structure applied to other classes where opportunities to reduce water use are less available.

The City water system serves approximately 16,800 customers, of which over ninety percent are residential. Residential customer usage comprises approximately 75% of total system-wide usage. As such, applying an increasing block rate structure to residential users is the most promising method of promoting conservation. The remaining 1,000 or so customers that are classified as commercial, industrial, institutional or irrigation are charged a flat volumetric rate that is set at a higher level than the residential Tier 1 rate.

The following example shows a revenue-neutral tiered rate structure for Council's conceptual approval.

Current water quantity rate = $2.60 per hcf
(1 hcf = 1 hundred cubic feet = 748 gallons)

Conceptual structure and rates:

Single-family Residential Customers

	Usage/month	Rate
Tier 1	0 – 15 hcf	$2.35 per hcf
Tier 2	16 – 40 hcf	$2.65 per hcf
Tier 3	Over 40 hcf	$3.15 per hcf

All Other Customers

$2.65 per hcf

Residential water customers use an average of 25 hcf per month (less during the winter, and more during the summer). The change in the water quantity portion of a customer's service charge resulting from implementation of the tiered rate structure is shown below.

Water Quantity Charge Comparison		
Water Use/Month	Existing Rates	Tiered Rate Structure
10 hcf	$26.00 per month	$23.50 per month
25 hcf	$65.00 per month	$66.25 per month
50 hcf	$130.00 per month	$157.50 per month

A comparison of water rates charged by various Ventura County cities and water agencies is shown on the following page.

Water Rate Comparison

Agency	Fixed Monthly Charge Residential 3/4" Meter	Residential Water Usage Charges (Monthly Rates Unless Noted)	
1. Thousand Oaks	$10.06	Current rate All water, per hcf	 $2.60
2. California American Water company	$6.42	1 - 15 hcf 15 - 26 hcf 26 + hcf	$2.74 $3.10 $3.35
3. California Water	$18.43	1 -13 hcf 14 - 45 hcf 45 + hcf	$2.35 $2.76 $3.04
4. VCWWD No. 8 Simi Valley	$15.90	1 - 55 hcf 56+ hcf	$2.31 $2.83
5. Golden State Water Co. Simi Valley	$17.45	All water, per hcf *0 - 13 hcf *14 + hcf	$2.30 $2.21 $2.54
6. VCWWD No. 1 Moorpark	$7.25	Monthly 0 - 14 hcf 15 - 25 hcf 26 + hcf	 $1.86 $2.80 $4.66
7. Camrosa Water District	$8.60	Non-Pumped 1- 12 hcf Over 12 hcf	 $1.75 $2.07
8. Oak Park Water Service Triunfo Sanitation District	$19.74	0 - 3 hcf Over 3 hcf	$1.88 $2.35
9. Las Virgenes	$23.79	1 - 16 hcf 17 - 67 hcf 68 - 200 hcf 200 + hcf	$1.28 $1.60 $2.39 $3.58

* Pending PUC approval

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