



WATER RESOURCES RESEARCH GRANT PROPOSAL

Project ID: 2003IL21B

Title: Water Rates and Ratemaking Practices in Illinois Community Water Systems

Project Type: Research

Focus Categories: Economics, Water Use, Management and Planning

Keywords: water rates, rate design, pricing practices

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Congressional District: 12

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Abstract: Water rates and pricing structures embody a mix of both broad and specific allocative, environmental, and administrative objectives. Economic theory dictates that price is the most basic factor that consumers will use in their decisions on the quantity of water that they will consume. Aside from the economic efficiency criterion, there is little theoretical and practical guidance to establish the price of water services. Water price is especially critical to a thorough understanding of water demand, particularly because it is one of the few mechanisms that water system managers have under their control that can directly influence consumer behavior and water demand. Although government agencies routinely collect information related to water quality and the physical infrastructure of water utilities, few collect any information related to water demand, especially water rates and prices. The primary objective of this research is to collect information on the prices and pricing practices of the community water systems in Illinois in order to characterize rate making practices, and to organize industry experience into a rate-setting framework and corresponding model that relates pricing practices to various water utility characteristics and pricing objectives. A secondary objective is to develop a county-level water price measure that can be used to represent the influence of price in water demand models.

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