



Questions & Answers about Water Rates

How do water rates reflect the cost of water?

Ideally, water rates pay for all the costs of providing water from operating the water system and maintaining the facilities to replacing the equipment. Just like an automobile, a water system starts wearing out the day it is turned on. Water systems should price water to reflect the true cost of providing safe and reliable drinking water to customers now and in the future. Accurate pricing can avoid large rate increases in the future.

Customers pay a portion of the cost of water service through the bills they receive from their water system. Rates should be fair so that each customer pays his/her fair share. Water systems can also use rates to promote water use efficiency. Lower water use and conservation decreases wear and tear on the system, reducing pumping and maintenance expenses.

What do water rates cover?

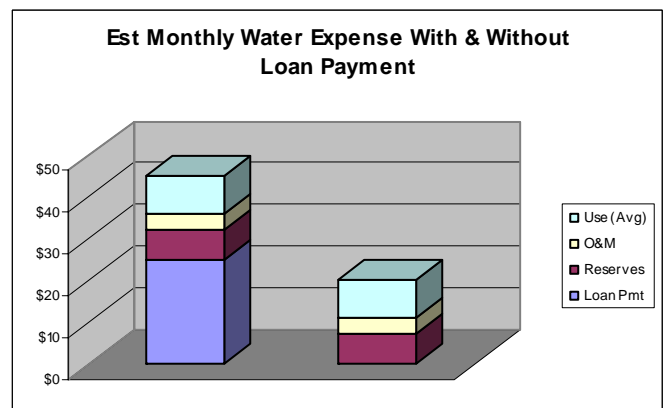
Water systems should set rates to recover the full cost of producing and distributing water to customers. Revenues, including what customers pay for water, should meet or exceed expenses generated by a water system. By setting up a water utility, HMC will be able to set revenues at a level to recover the true costs of running the system. A portion of revenue will be placed into reserve accounts for future improvements and unexpected emergencies. Water expenses may include:

- Water quality monitoring
- Maintenance, repairs and supplies
- Electricity
- Improvements and upgrades
- Operating and emergency reserves
- Salaries and benefits
- Insurance and bonds
- Professional services
- Office supplies

Below is a simple exhibit of estimated HMC water rates, with and without payment of loan debt. These stacked bars show the relative contributions to reserves, M&O, loan payments and an estimated average water consumption for members. Consumption will vary dramatically on a seasonal basis, during dryer weather and increased member presence on the island.

What causes rates to change?

Water revenues and expenses will be transferred from the general budget to a water utility, where they can be managed in a financially sound manner. Water expense will no longer appear in the member assessment. Factors affecting rate increases or decreases could include maintenance and repair costs, costs for water treatment (if needed), past revenues not covering the true cost of water (or exceeding the true cost of water), new regulatory requirements or inflation.



Why are regular reviews of budget and rates important?

Water revenues need to cover the true cost of doing business. Water rates will be reviewed annually as part of the HMC budget process, in order to avoid sudden increases or decreases.

Are there other rates structures available?

There are a variety of rate structures that could be applied. Until HMC would have some experience with water revenues and use patterns, it would be speculative to choose another rate structure, especially since the island does not seem to have a supply problem. Some options include:

- Increasing block rates. Block rate pricing increases the per-gallon charges for water as the amount used goes up, to encourage conservation.
- High-use surcharges. Higher rates can be imposed on “excessive” water use, especially in times of shortage.
- Seasonal rates. Prices rise and fall according to water demand and weather conditions. Usually rates are higher in the summer when demand is highest.