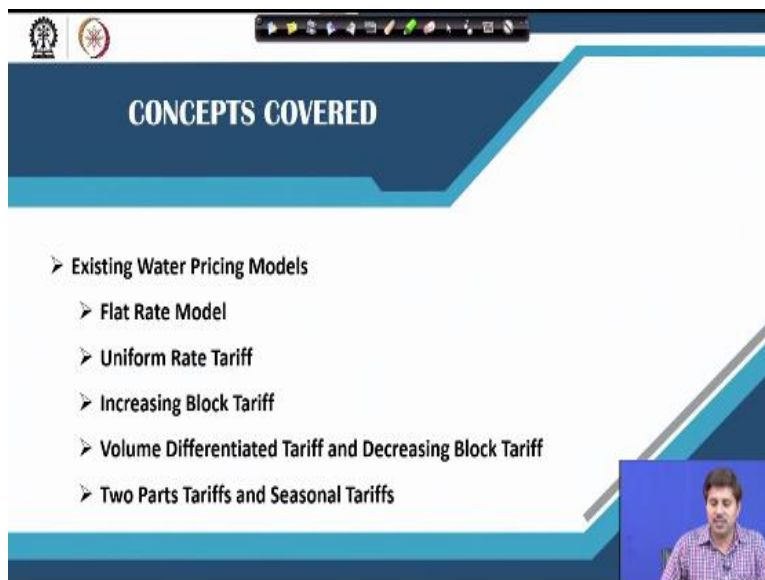


**School of Water Resources
Prof. Manoj Kumar Tiwari
Department of Civil engineering
Indian Institute of Technology, Kharagpur**

**Lecture -61
Water Pricing Models**

Welcome back friends, so last class we discussed about the water pricing what is the concept of water pricing and why it is important? Now this particular class we are going to talk about water pricing models.

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CONCEPTS COVERED

- Existing Water Pricing Models
 - Flat Rate Model
 - Uniform Rate Tariff
 - Increasing Block Tariff
 - Volume Differentiated Tariff and Decreasing Block Tariff
 - Two Parts Tariffs and Seasonal Tariffs

We will discuss what are the various existing water pricing models particularly like; Flat rate model, Uniform rate tariff, Increasing block tariff, Volumetric differentiated tariffs and Decreasing block tariffs and we will also talk about two parts Tariffs and Seasonal tariffs.

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Water Tariffs Models

Flat Rate Models:

- Fixed charge or Flat rate

Volumetric Rate Models:

- Uniform volumetric tariff
- Increasing block tariff
- Volume-differentiated tariff
- Decreasing block tariff
- Two parts tariffs
- Seasonal tariffs

Sources: <http://webdigger.com/34-part-of-water-tariff.html>; <https://www.library.com/2018/08/09/>

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So these are the various water tariff models there are you can categorize them into two broad ways: the flat rate models and volumetric rate models. The flat rate models are basically fixed charge or flat rate, so it does not depend on the volume of water used and whereas that is why it is known as non-volumetric model as well whereas the volumetric rate model relies upon the volume that is being consumed.

And there are several like such pricing schemes available like uniform tariffs, then increasing block tariff, volume differentiated tariffs, decreasing block tariff, two part tariff, seasonal tariffs, there are several such schemes are available.

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Water Tariff Models: Fixed Charge or Flat Rate

- Charge a **constant fee regardless of the volume used.**
- The consumer pays a monthly water bill, which is the same independently of the volume consumed.
- However, the charge may vary according to specific factors (such as connection size or type, consumer type etc.).
- **In absence of a water metering system**, a fixed water charge is the **only possible tariff structure**, and hence **very common in many parts of the world, including India.**
- Fixed water charges are commonly found in countries where water has historically been abundant and hence metering was not needed to give people an incentive to reduce water consumption.
- Fixed charges are **still quite widely used in industrialized countries**, such as Canada, Norway, and the United Kingdom.

Total Price (Rs) →

Total Water Consumption (m³) →

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Now the fixed charge or the flat rate model is basically a charge, a constant fee regardless of the volume used. So practically it does not measure the volume, so consumer pay a monthly water bill which is same independent of the volume consumed. If somebody is using, say more water somebody is using less water both will end up paying the same amount. So like in case when you do not record in absence of water metering system you have only this option left.

Where basically you can put a pause like fixed charge and this is very common in many parts of the world including India. There are fixed charges are commonly found in countries where, there are historically water has been abundant and metering has not been put in place. So in other countries like various industrialized countries, such as Canada, Norway, UK also these kind of models are very popular.

So there is no meter install in the house, if you are say using ten kilo liters a month, 20 kilo liters a month, 30 kilo liters a month. Eventually everybody is going to pay same because there is no recording itself. There may be different charges that relies on the specific factors such as the connection size or type or the consumer type.

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Water Tariff Models: Fixed Charge or Flat Rate

Criteria for Setting

- ✓ **Income and/or ability to pay:** Higher fixed charges set on **valuable residential properties** on the assumption that people with a higher income tend to use more water and/or have a greater ability to pay for the water they use.
- ✓ For the same reason, it is common to assign **commercial entities a different fixed charge than for households.**
- ✓ **Diameter of the pipe connecting to the distribution system:** Households, which generally require a smaller bore than connections for larger concerns (e.g., businesses, hospitals), are commonly set a lower fixed charge.

Tariff structure

Fixed charge vs. Type of fixture (Small, Medium, Large...)

Fixed charge vs. Diameter of the pipe (75mm, 45mm, 70mm...)

Fixed charge vs. Number of fixtures (1, 2, 4...)

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So that is again within a consumer class it is still going to remain the same. So how do we set we may set it based on the income and ability to pay, so we may set higher fixed charges set on the valuable residential property. So we say like what is the area in which houses and based on the

area we can set up a fixed charge. So let us say we make, with area less than 200 meter square houses.

They will pay some x1 amount of price with a 200 to 300 meter square area they will pay some say x2 amount of price. So this price may vary based on the area based on the residential properties it may vary based on the pipe connecting the distribution system. So many utilities like, offer that you may go for say, 20 mm pipe, 15 mm pipe, so depending on the pipe size that the connection pipe size you will be charged a fixed rate.

So if you are going for a higher dia pipe, if you are going say 25 mm pipe will be charged something, if you are going for a 70 mm pipe you will be charged higher. It is still going to be the fixed rate but it will be charging at a higher rate. So similarly for a small houses lesser price; for large houses higher price, medium houses medium price. The number of faucets in household can be another criteria.

If you have say 4 or higher number of faucets you will be paying this much price, for a lesser number of faucets you will be paying this much price. So like we may see that different price structures across different, like for different type of consumers but within a consumer section the price remains same irrespective of the amount of water consumed. So, because it can varies depending on the connection type. So, commercial entities are typically charged at a different rate than that of the household entities.

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Water Tariff Models: Fixed Charge or Flat Rate

Advantage

- ✓ Does not need a metering system.
- ✓ Easy to administer.
- ✓ Ensures affordability of water services if differentiated by ability to pay.
- ✓ Provides stable cash flow if set at appropriate level.

Disadvantage

- ✗ Do not give signal of the real cost of providing water and sanitation services.
- ✗ Do not provide incentives (reductions in bill) to reduce water consumption.
- ✗ Water might be sold at high prices to the households with no access to water.
- ✗ It is not possible to know the exact level of water consumption because there is no metering.
- ✗ In the long-run, fixed charges do not generate revenues for future service expansion. **Locking communities into poor level of service.**

Source: <https://www.siam.in.th/stories/registrations-for-water-supply-connections-for-rural-people-in-the-dry-land-water-charge>

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So that is the, like criteria for fixed charge, fixed price model. The advantage is that, it does not require a metering system. It is easier to administer because you have going to charge same from everyone within a consumer class. Then it ensures affordability of water services, if kind of provided that which charges are kept that way and it provides a stable cash flow if set at appropriate level.

So if you are sitting a, say monthly tariff and everybody is paying that you are getting that much amount of water fixed amount in a month irrespective of how much water is being pumped or how much investment are being made? But a stable cash flow is ensured for the utility. On the disadvantage front it does not give any signal to the real cost of providing water and sanitation services if you are just like providing water at a fixed price.

People will not know whether the cost of services are more than that or less than that, no information is there, no signal is there, it do not provide any incentive for like reducing water consumption because there is no reduction in the bill you use less water then also will be paying the same amount. Water might be sold at high prices to the household with no access to water. So somebody might let us say, fill that water and sell to the other houses.

Where there is no water at a higher prices because he is getting for free, he is not paying for that water and it is not possible to kind of see exact level of consumption because there is no

metering in a long run. Fixed charges do not generate revenues for future expansion, so these are some of the disadvantages.

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Water Tariff Models: Fixed Charge or Flat Rate

Example - Tariff structure in Raipur in 2009

Type of Consumer	Size of Connection	Per Day Charge
Domestic	0.5" = 1.3 cm	Rs 2.00
Commercial	0.5" = 1.3 cm	Rs 4.90
	0.75" = 1.9 cm	Rs 15.00
	1" = 2.5 cm	Rs 25.00
	1.5" = 3.8 cm	Rs 40.00
	1.75" = 4.4 cm	Rs 70.00
	2" = 5.1 cm	Rs 100.00
	2.5" = 6.4 cm	Rs 130.00

Source: TERI (2010): Review of Current Practices in Determining User Charges and Incorporation of Economic Principles in Pricing of Urban Water Supply. Taken from: <https://www.stans.edu/colleges/implementation-tool/collec-unit/collec/economic-tool/price-pricing-fixed-charge>

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This is an example like in the Raipur in 2009. So depending on the different connection sizes 0.5 inch connection for domestic per day charge was rupees 2.00 that means 60 rupees a month. For commercial connections again depending on the pipe sizes there are variable connection ranges.

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Water Tariff Models: Uniform Rate

- In a uniform volumetric charge, or *constant volumetric tariff*, all water units are priced the same independent of the use, and consumers pay proportionally to their water consumption.
- The simplest way to price water based on a customer's level of use, by charging customers a fixed amount per unit of water consumed. The total price of water increases as a customer uses additional units of water.
- The unit price for water does not change within a customer class.
- Prerequisite for setting a uniform volumetric charge is that consumers have a metered connection to the water system.

Price per Unit Consumption (Rs/m³)

Total Water Consumption (m³) →

Total Price (Rs) →

Total Water

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Then in the volumetric tariff the first type of model or the very basic type of model is the uniform rate, this uniform volumetric rate is basically a constant volumetric tariff. So here the water rates that means price per unit of water remains same independent of the uses, so consumer

pay proportionality to their water consumption. So, it is simplest way to price water because you are putting a price to the water.

So you are saying that price to water, say for my water, if I set up price here. So if consumer is using this much, he will be basically paying this much price, if he is using this much he will be paying this price. So your price is directly based on the consumption, so if you have say X rupees per kilo liter and somebody is consuming V volume, so you multiply V into X and you get their monthly water bill.

If he is consuming V kilo liters and your rate is X rupees per kilo liter, you multiply that you get the straightaway the monthly water bill. So your monthly water bill is V into X. This that is why, it is a simplest way, Consumers are charged fixed amount per unit water consume and the total price will increase based on the increase in the consumption. So the one who is using more water will be basically paying more but unit price of water does not change within a consumer class.

Again here also depending on change of the consumer class we can set up different tariffs. So for industrial we say, let us say 2 rupees per kilo liter for industries we may set 4 rupees per kilo liter. So for a different type of consumer class we may have different rate but within a consumer class the prices are same. So prerequisite for setting up a uniform volumetric charge or any volumetric model is basically consumers have to have a metered connection because then only we will be able to monitor.

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Water Tariff Models: Uniform Rate

- The rate sends a price signal to the customer because the water bill will vary by usage.
- The constant volumetric tariff can be designed as a single tariff or as a two part tariff combined with a fixed charge.
- Uniform volumetric rates can be structured so that the unit price for water is low (sending a weak conservation signal) or high (sending a strong conservation signal but potentially risking affordability concerns for some customers).
- The unit price for water can also change throughout the year. The annual variation in water costs by applying a higher price per unit for water could be used during certain times, usually the summer months.
- Utilities may also fix uniform tariff for certain class of consumers (commercial, industrial etc.) while a different tariff regime for domestic consumers (Flat rate or IBT).

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The how much volume is consumed? How much water is consumed? So we have, to have a metering system in place. In the uniform rate, the rate sensor price signal to the consumer because if they are using more water they will be basically paying higher price. This can be designed as a single tariff for as a two part tariff. So in a two part tariff, practically there will be fixed charge which is say for administrative charges or for other kind of fee.

So you will be, say having a X_0 or say as a free or say P_0 as a free price, fixed charge and then the rest will be depending on the volume and the rate. So that becomes your overall total water bill. So if it is a two-part tariff or if it is a single part tariff, then total bill is just volume consumed into the tariff whatever is there.

Now uniform volumetric rate structures are, so that the unit price of water is low. If unit price of water is low then it sends a weak conservation signal or if it is high then it sends a strong conservation signal but then for high tariffs there is a risk of compromising the affordability concerns for the consumers because if price is very high per unit water so then it may not be affordable for certain set of consumers.

The unit price for water can also change throughout the year, so there might be like seasonal variation can also come in here. So usually in summer month you can see that the tariff rates are increased while in winter months tariff rates are decreased. Utility may also fix a uniform tariff

for certain class of consumers and opt for a different tariff regime for a different class of consumers. So, like it can fix a uniform tariff, for say, commercial or industrial connections and for domestic connections. It can go for a tariff model like flat rate or increasing block or that kind of tariff rates.

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Water Tariff Models: Uniform Rate

Advantage

- ✓ Ensures social equity, and easy to understand for consumers - people pay according to how much they actually use.
- ✓ Ensures economic efficiency if set at or near marginal cost of water. Revenues adjust automatically to changing consumption.
- ✓ Process of tariff revision is simple.
- ✓ People can limit their bills by reducing consumption. It incorporates concept of water conservation, as the water bill increases with consumption.

Disadvantage

- x Needs water metering system, which is expensive.
- x Institutions that need a lot of water will have a high water bill, which may make them move to other sites with other tariffs. A nationally coherent strategy is thus necessary when applying this type of charging.

Source: <http://www.wari.in/india/implementation/india/water-use/2013/economic-tool/setting-up/water-charging/>

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The advantage is that, it ensure social equity because everyone is paying at the same rate, it ensures economic efficiency. So whatever water is consumed; that revenues are collected according to the consumption. The tariff revision is simple we just need to change the rate and people can limit their bill by reduced consumption. So that way concept of water conservation is also supported with this kind of tariff.

On the disadvantaged front it needs water metering which is expensive and institution needs a lot of water which have high water bills and that may make them look for the alternate sites or other tariffs. So it has to be seen that the prices are proportionate throughout the other places as well.

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Water Tariff Models: Increasing Block Tariff (IBT)

- Under an IBT scheme, users pay different amounts for different consumption levels, as tariffs have a **step-wise structure**.
- Increasing block rates or **tiered pricing** reduces water use by increasing the per-unit charges for water as the amount used increases.
- Charges per unit (e.g. kl) of water consumed remains constant for a certain quantity of consumption (first block). As the water use increases, the tariff shifts to the next block of consumption which is charged at higher rate, and so on for each block of consumption until the highest one.
- Believed to encourage water reduction as the price increases with a pre-defined amount of water use. Thus, sends a very strong signal of water conservation (if designed well).
- Each block is set according to a customer's expected needs, with larger, more expensive blocks set to encourage conservation.

Revenue collected



Tariff structure



Source: <https://www.water.gov.au/infrastructure/water-pricing/Increasing-Block-tariffs>

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The next type of model is the increasing block tariff, which is IBT. So IBT is one of the most popular metering regime most popular pricing methods these days. Users pay different amounts for different consumption levels and these structures are generally stepwise structures. So you can see like we will have up to certain levels of consumption charges are this. Then for higher level of consumptions charges would be this, for further higher levels of consumption charges would be this.

So if somebody is consuming this much of water their bill is going to remain this much but from this point forward, so let us say if this is 10 kilo liter. So up to 10 kilo liter your charges are say 5 rupees per kilo liter. So you will be paying 50 rupees for the first 10 kilo liters and then if you are using another, say 4 kilo liter and you are actually paying 8 rupees, this is say 8 rupees per kilo liter. So if you are using another 4, so for remaining 4 you will be paying at the rate of 8.

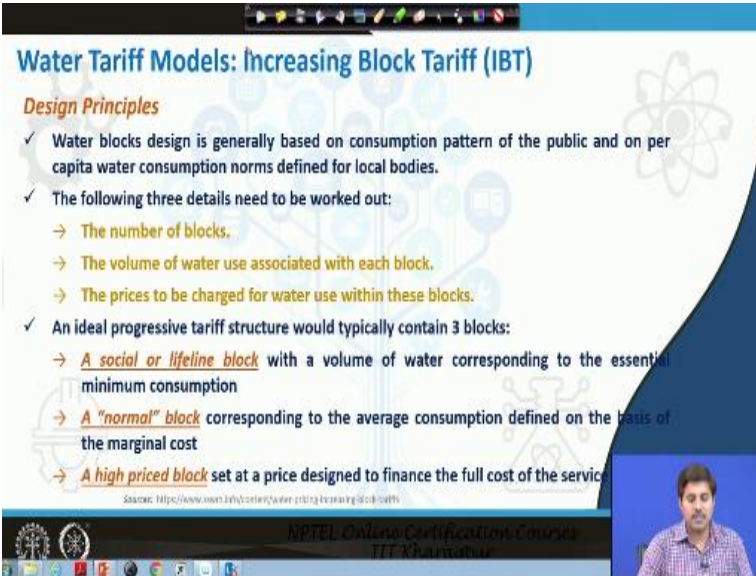
So the difference here would be based on the amount that you are, basically 8 into 4 because they have consumed 4 kilo liter at the rate of 8. So that will be paying 32 rupees here, so total you will be paying that way 50 + 32 means 82 rupees. If you are using say 25 kilo liter and the prices here is, say 15, so that means up to 10 kilo liter, you will be paying 50 for remaining 5 you will be paying 40 again.

So say here, up till here you paid 50, up till here you paid 40 more, because this is, say 8 and this is, say 5, so this will be 40 and if this is, say 15 the third block is at 15 and you have consumed 25. So that means 10 and 5, 15, so remaining 10 you will be paying at a rate of 15. So you will be paying basically 150 rupees more for the enhanced consumption. So the total water bill is going to be 50 + 40, 90 + 150 that is 240.

So it is charged that way, increasing block tariffs are tiered prices that way and which kind of reduce water use by increasing the per unit charge for water. So this sends a very strong signal for water reduction it is a very strong signal because if somebody is consuming higher water, so he will have to pay at a higher rate also. So, if design well that way it can be helpful, at the first block the rates are low and then as the water use increases the tariff shifts to the next blocks which is charged at a higher rate.

Each block is set according to the customers expected need with larger more expensive blocks are targeted to set the conservation, go further lesser water consumption.

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The slide is titled "Water Tariff Models: Increasing Block Tariff (IBT)". It lists design principles for IBT. The slide includes a small video inset of a man in the bottom right corner. At the bottom, it says "NPTEL Online Certification Course" and "IIT Kharagpur".

Water Tariff Models: Increasing Block Tariff (IBT)

Design Principles

- ✓ Water blocks design is generally based on consumption pattern of the public and on per capita water consumption norms defined for local bodies.
- ✓ The following three details need to be worked out:
 - The number of blocks.
 - The volume of water use associated with each block.
 - The prices to be charged for water use within these blocks.
- ✓ An ideal progressive tariff structure would typically contain 3 blocks:
 - A *social or lifeline block* with a volume of water corresponding to the essential minimum consumption
 - A *"normal" block* corresponding to the average consumption defined on the basis of the marginal cost
 - A *high priced block* set at a price designed to finance the full cost of the service

Source: <https://www.watersupplycenter.org/water-pricing/ib-tariff/>

So the design principle here is that we see like, the what we need to basically follow three details; the number of blocks, how many number of blocks we are going to provide? Volume of water associated with each block and the price to be charged for each block? So we are going to

have say, a 3 block system or a 4 block system and what is going to be the charge for each of the blocks? An ideal progressive tariff structure typically contains minimum 3 blocks.

The first block is called a social or lifeline block where the volume of water corresponds to the essential minimum consumption and this is charged at a very low rate in order to make it affordable. So let us say, consider that ten kilo liter per month is bare minimum which people would be using and that much water they should get at a subsidized rate or lower price. So you can keep say 5 rupees for first 10 or then there is a normal block which corresponds to the average consumption defined on the basis of the marginal cost.

So on the basis of marginal cost you can basically put say price here, say 10 rupees for the next 10 kilo liters and if somebody is using beyond that so there is a high-priced block which said to price designed to finance the full cost of the services. So if somebody is using beyond this, like this you say, that bare minimum. So you should be able to consider that, this has to be affordable.

So even people with low-income group should use water within this range and should basically be charged at a very low price whereas those who are using higher rates they will be basically charging at a like those who are using more volume will be charged. The extra volume will be charged at a higher rate which is a middle range and generally on the marginal cost basis and the one who is actually using even higher. There should be even penalized for this one maybe and should be charged further higher.

So that people are discouraged to go into the third range and helping the water conservation objectives. So these are the kind of 3 basic blocks, that must be there.

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Water Tariff Models: Increasing Block Tariff (IBT)

Critical Issue

Design of the base block is a delicate issue as it is rife with social implications. In some cases, IBT may have unintended effects on the poor. If poor households are sharing a single connection (common in India) that drives consumption and rates higher, will result in poor households finally paying more than better-off users. Moreover, in developing countries, most of poor households have no connections to the water distribution system therefore they are not in a position to be helped by the lifeline tariff.

Advantage

- ✓ Ensures cost recovery by well designed size and height of the blocks.
- ✓ Poor households connected to the network are provided with affordable water.
- ✓ Promotes water conservation.

Disadvantage

- x Tariff design is complex, difficult to implement, and needs metering system in place
- x Penalizes poor families with large households and/or shared connections.

Source: <http://www.environmental-portal.org/portal/ibts.html>

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In IBT the critical issues are there, that the design of the base block is a very delicate issue and may have social implications. In some cases it has unintended effect on the poor because if poor households are sharing a single connection. So mean let us say many households are sharing a single connection or family is very large, so it does not consider size of family. In a well-to-do family if there are two people they are consuming ten liter water paying at the same price.

If say family of 15 people they will obviously consume at a more water more than say 10 or more than 20 and then they will have to pay at a higher price. So like very well-to-do family might end up paying at a very base level because number of people are less in the household, whereas a poor family because of more number of people in the households may end up paying very high tariffs.

Also in India like, many other developed countries poor households have no connection to the utility and then water distribution system like, if whatever we are putting the lifeline tariff. They are not getting help with that because it is not reaching them. So these are some of the critical issues in setting up in IBT. The advantages are that it ensures the cost recovery with a well-designed size and height of the block.

The poor household connected to the network are provided the affordable water in a base block and it promotes water conservation because it gives a strong signal to cut down the water

consumption at the higher consumption are charged at a higher rates. The disadvantages is that the tariff design is relatively complex we have to have several blocks. It is difficult to implement and need metering system in place and it penalized poor families with large households or shared connections.

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Slab-wise water consumption (in litres)	Tariff (Rs) per 1,000 litres
Domestic Connections	
0-8,000 (Minimum)	7
8,001-25,000	11
25,001-50,000	26
Above 50,000	45
Non-Domestic Connections	
0-10000	50
10001-25000	57
25001-50000	65
50001-75000	76
Above 75000	87

This is an example for Bangalore, so since in 2014 Bangalore revised their rate and since then they are actually offering this rate. So for domestic connections from 0 to 800 liters means 8 kilo liters the charges is 7 rupees per thousand liters or per kilo liter. 8 to 25 the charges are 11. 25 to 50 charges are 26 and above 50 it is 45 and for non-domestic connections or commercial connections it is for first 10 kilo liters the charges are 50. 10 to 25; 57. 25 to 50; 65 and then up to 75 it is 76 and above 75 it is 87. So these are the different tariff structures.

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Water Tariff Models: Volume Differentiated Tariff (VDT)

- This shows a similar pattern to the IBT, but, once the user reaches an upper block, the price paid is the last block price not only for the water consumed in the last block but also for the previous units of water consumed.
- The last block reached by the consumption determines the price per m³ of all the previous water consumed. For that reason, sometimes it is referred to as a tariff with a "disappearing first block".
- Although, it sends a very strong signal for water consumption, it is often seen as an unfair structure if compared with IBT because of the higher financial penalization for large consumptions and the lack of a subsidized essential consumption. Therefore, VDT is not accepted by the most.

Source: Ferrero, 1996, 93, and Ferrero, V. (2005). Incentivos water tariffs

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Which are followed for commercial and non-commercial, domestic and non-domestic connections in the Bangalore? There are few other water tariff models like the volumetric differentiated tariffs. Now this volumetric differentiated tariff is similar to IBT but, it like in IBT, also here also we have a different block of tariffs. So we have consumption, for consumption up to, say this amount the rates are this.

For consumption up to this amount the rates are higher but the problem here is, unlike IBT where the first set of, let say in an IBT model for first block consumption say, that 10 liter is 10 kilo liter is first block. So for this 10 kilo liter consumption you will be paying at this rate, for next consumption you will be paying at, whatever is the block rate, for further higher consumption, you will be paying at this rate.

But in volumetric differentiated tariff, once user crosses this block, so if say somebody has consumed 11 kilo later, it has reached in this block. So it will not be paying for the 10 kilo liter at base price and then one kilo liter at extra price but it will be paying for all 11 kilo liter at the price here. So if your consumption is in this range for entire water your tariff will be this. If your consumption is here.

So for entire consumption your tariff is going to be this and it is not that for first X1 liter you will be paying B1 and X2 liter, you will be like X1 - X2 liter, you will be paying at the rate of B2 it

does not work that way. So basically the consumer pays at a rate in the last block in which he is there and for the previous unit of water consumed also he pays at that rate. So the last block that is reached by the consumption determines the price per meter cube of the all water consume and for that reason sometimes this is referred as a tariff with disappearing first block.

Because if you have reached in a next block the first block has gone, for you will be paying for entire water at that particular rate. Now although this sense of very strong signal because in IBT also the signal is strong but it discouraged to go upper but still you pay lower prices for the base and therefore the medium range and only the prices are very high for a higher range. Here if you have moved to the higher range you might be like paying for entire water at that particular rate itself.

So that is the problem and that is why, it is says as disappearing first block because your earlier block has disappeared they are not your entire consumption has to be now paid based on that and that is why he like often it is seen as an unfair structure in compared with the IBT because higher financial penalty is there for large consumption and there is lack of any subsidy for essential consumption. So that is why this model is not accepted by the most.

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Water Tariff Models: Decreasing Block Tariff (DBT)

- Convert to IBT, and charge a volumetric rate that decreases for higher levels of use.
- The rate per unit of water is high for the initial (lower) block of consumption and decreases as the volume of consumption increases.
- This type of tariff structure was designed when raw water supplies were abundant, large industrial customers often impose lower average costs because they enable the utility to capture economies of scale in water source development, transmission, and treatment.
- DBT provide a disincentive for reducing wastage of water.
- This structure has been nearly phased out in many parts of the world as DBT do not send a cost signal to the customer to conserve water which has found place in the political agenda of many governments.
- Decreasing block price scheme are still used in some communities of the USA and Canada, though in recent years other volumetric tariffs (e.g. uniform price and increasing block) are frequently applied.

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Then there are a couple of other models like there is decreasing block tariff which is again a more or less obsolete model. It has been nearly phased out it is basically a opposite to the IBT. In

IBT we have the rate keeps on increasing block wise, whereas in DBT or decreasing block tariffs the first block is charged at a higher rate and then rates keep on decreasing as the consumption increases.

Now the rate per unit water is high in the initial or lower block of consumption and decreases as the volume of consumption increases. So this type of tariff was designed when basically raw water supplies were abundant and then large industrial consumers were often imposed lower average cost because they enable the utility to capture the economy in this scale. It is like decreasing block tariff, are popular in various other regimes tape.

But it has been almost phased out from water, so you are buying something if you buy 1kg you pay certain price, if you buy 10kg you pay lesser price, for that. So that is kind of decreasing block because when your consumption is higher you end to pay lesser. In Indian railway if you see, if you travel a 100 kilometer you pay certain fare, if you travel a thousand kilometer, fare is not 10 times here, fare is maybe just 3/4 times of the these things.

So although you are travelling lesser distance, so but extra distance is charged at a lower prices. So similarly like here also, water also this concept was existed earlier but now because if this model provides a disincentive for reducing wastage of water. People using higher water will be paying very less for that additional price. So they are not considered, so that is why it has been nearly phased out, this is a strongly discouraged model everywhere.

Now still are used in some communities but people are more sitting now towards the uniform or increasing block tariffs rather than going for this.

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Water Tariff Models: Two Part Tariff and Seasonal Tariff

Two Part Tariff

- Have a fixed charge component plus a variable charge depending on the volume of water consumed (e.g. increasing block or uniform tariff).
- Two parts tariffs are widely promoted by the World Bank, aim at recovering costs and achieving economic efficiency.
- The fixed part usually corresponds to the fixed costs of production and administration and the proportional part can be adjusted to the marginal cost and water uses.

Seasonal Tariffs

- Usually charge a higher price during peak season.
- Prices rise and fall according to water demands and weather conditions (with higher prices usually occurring in the summer months).

The figure contains three vertically stacked graphs. The top graph, 'Revenue collected', shows a curve starting from the origin and increasing at an increasing rate as 'ma' (m³) increases. The middle graph, 'Tariff structure', shows a step function where the price is constant at D_1 up to X_{m1} , then jumps to D_2 up to X_{m2} , and then to D_3 for consumption above X_{m2} . The bottom graph, 'Seasonal Rates', shows a rectangular pulse where the price is 'Off-Peak' during most of the year and 'Peak' during a specific period.

Source: Torres-Blas, M., and Zamora, V. (2015), *Water Tariffs*. <https://www.researchgate.net/publication/273174414>

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There are two part tariff and seasonal tariff models. So these two part tariff models have a fixed charge component plus a variable charge component, on the volume of the water consumed. This would be like increasing block or uniform tariffs, so let us say if you are having increasing block tariffs, so you do not start with a 0 for consumption you rather starts with a fixed charge. So this is your fixed charge which will be there and for remaining consumption you will be charged at certain levels.

Or if it is a uniform model, so instead of starting from here, it will start from here because you would be paying certain fixed charge which is irrespective of the consumption and then for the remaining part based on the consumed volume whatever tariff model is used is will be utilized. The World Bank is widely promoting this model aiming to recover the cost and achieving the economy efficiency of the services.

The fixed part usually corresponds to the fixed cost of production and administration and the proportional part can be adjusted to the marginal cost and the water uses. Then there are seasonal tariffs which charge higher water prices during peak season. When the season is peak the per unit water price is higher and when season is in the off peak, the per unit water prices are lower. So prices rise and fall according to the water demand and weather conditions.

So in summer months the prices will be higher and in the off peak season or when there is no water shortage the prices per unit water could be lower. So this also is for discouraging the water consumption during the peak period. So that the water conservation can be achieved when there is a crisis.

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Rate type	Send a conservative signal	Easy to explain?	Easy to implement?	Addresses equity concerns?	Provides reliable revenue?
Flat Rate	No	Yes	Yes – does not require water metering.	No – water bill does not reflect the cost of service.	Yes – water revenue is independent of water use.
Uniform Volumetric Rate	Possibly - depends on the price per unit.	Yes	Yes , but requires water metering.	Possibly - water bill is directly related to water use.	No – revenue depends on water use.
Increasing Block Rate	Likely –depends on the size of the block and the price per unit.	Somewhat	Somewhat - requires analysis regarding number of blocks, size of blocks, and price per unit for each block. Requires water metering. Requires forecasting customer usage.	Possibly - water bill is directly related to water use.	No – revenue depends on water use.
Volume Differentiated Tariff	Yes	-----As above-----			
Decreasing Block Rate	No	-----As above-----			

Now this is the water tariff schemes comparison. What we have discussed so far, so flat rate it does, it send a conservation signal, no it is easy to explain, yes very easy to implement. Yes it does not require metering, it addresses the equality concerns, no water bill does not reflect the cost of the services, it provides reliable revenue, yes a fixed revenue is provided but that is independent of water use.

The uniform volumetric rate it sends a conservative signals yes depending on the what is the price. It is easy to explain, yes, easy to implement, yes there is fixed price but it does require metering and it addresses the quality concerns possibly yes because water bill is directly proportional to the water use and it provides reliable revenue. Revenue new again depends on the water use. So if people are not using water not much consumption is there you would not get revenue unlike in the flat model.

Increasing block rate sends a conservation signal, yes if, the blocks are made that way so it will send a conservation signal, easy to explain, yes it is somewhat easy to explain but still like more

complicated than the other too, easy to implement, it requires basically the setting up number of block, size of block per unit block rate, requires metering, requires forecasting customer uses in order to setting up the block. So those are the things there but then it can be implemented.

It addresses equality concerns and it also does not provide a reliable source of revenue because revenue again depends on the consumption. The volumetric differentiated tariffs and decreasing block tariffs, so if you say the volumetric differentiated tariffs it sends a conservative signal absolutely yes because it is charge the higher consumption at high rates. Decreasing block tariffs no it does not send and it is less thing more or less remains like IBT structures only they are also different tariff rates model so somewhat similar to that.

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So with this we conclude the discussions here, we have talked about the pricing strategies in the previous class and then we discussed about the various water pricing models here, will take up possibly some examples and worked examples in the next class. Thank you.