Keeping California Under Water

Consumers get soaked as state agencies try to balance conservation with revenue generation.

By TIM DeROCHE

WHAT a difference a year makes. One year ago, California faced the third straight year of severe drought. Water rates went up. Cities like Los Angeles implemented draconian watering restrictions. The Schwarzenegger administration released a plan calling for a 20 percent reduction in consumption by 2020.

This year, all's quiet on the Western front. A wet winter – and ongoing economic troubles – have muted the public outcry over water usage. The Los Angeles Department of Water and Power has proudly announced that consumption by single-family homes is down almost 30 percent since 2007.

Unfortunately, the long-term water problem hasn't gone away. Some experts expect water prices to increase 40 percent in the next three to five years. While the DWP has seen dramatic reductions in household use, it has been much less successful in reducing the use of large commercial customers. And consumption is likely to rise when annual rainfall declines again.

What's more, water policy in California is contradictory and vexing. Current policies encourage overconsumption and are unlikely to lead to long-term conservation because they fail to address the underlying economics and distorted incentives in the water market.

Imagine you're a California politician. Your constituents want you to support the conservation of precious natural resources like water. But you need to avoid being associated with any increase in the price of that water.

The result? Government policy both encourages the consumption of water (via low rates) and discourages it (via whatever programs they decide to throw at the problem). Note that this is the same conundrum of oil policy at the national level, where politicians advocate low gas prices while simultaneously urging less consumption.

Now imagine that you work for a California water agency. You derive most of your revenue from the sale of water. But the state also mandates that you encourage conservation with rebate programs and consumer education. What will happen if you are able to cut demand by 30 percent or 40 percent? You may lose your job..

'Death spiral'

I recently spoke to a water management expert at a large West Coast water agency. He admitted to me that conservation programs can't be "too" successful. "If we succeed in cutting demand, then we'll have to raise rates," he said. "And then demand will decrease further. It's a death spiral for us."

So water agencies administer all sorts of conservation programs, but they make sure that the programs will have a limited impact. They keep prices low. They put onerous restrictions on rebate programs. They produce brochures touting conservation but secretly hope that consumers won't take them too seriously.

If California is serious about cutting water waste, then the state can take a series of simple steps that would likely lead to a dramatic decrease in long-term consumption:

• Take the responsibility for water conservation away from the water agencies. These organizations see a direct financial benefit from the overconsumption of water.

• End all efforts to keep water rates artificially low. Many consumers do not pay the full cost of the water they use. The American Water Works Association reports that base rates in Southern California can vary by a factor of three to four from one city to the next. In addition, government subsidies ensure that farms pay as little as $2 per acre foot of water, a fraction of what consumers pay. With prices so low, it rarely makes sense for end users to invest in water-saving technologies.

• Encourage the proliferation of "tiered" water pricing. Pioneered by the Irvine Ranch Water District, these pricing plans charge higher rates (sometimes much higher rates) to businesses or consumers that use more than the average amount for a customer of their size. Such pricing schemes discourage overuse and avoid the regressive nature of higher base rates, which disproportionately impact the poorest consumers. In Los Angeles, such pricing only kicks in during "shortage" years.

• Encourage the installation of separate water meters for multifamily dwellings and landscaping functions. With separate meters, residential and business consumers will have a better picture of what they can save by reducing their consumption.

• Avoid naïve regulations that lead to distorted incentives. Like Los Angeles, many municipalities have implemented restrictions on watering days. Unfortunately, such restrictions penalize progressive consumers who install cutting-edge technologies like rotary nozzles or smart controllers. These technologies reduce overall usage by applying water more efficiently (and reducing evaporation) but also require longer watering windows.

• Target incentive programs at the largest water wasters. The DWP has had much more success reducing water consumption by single-family homes than by large commercial consumers. And agriculture, which consumes 80 percent of the state's water, has little incentive to reduce consumption because so much irrigation water is virtually free.

California can solve its water problem and reduce long-term water costs for the economy. But it will require politicians and policymakers to address the real economics and incentives of water use.

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DWP: Water agency's downtown headquarters.

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