

# Contracts for water not so fluid

Cities locked into system of paying even for what they don't use

**09:42 PM CDT on Saturday, July 1, 2006**

**By HERB BOOTH / The Dallas Morning News**

It's a simple theory. Use a gallon of water, pay for a gallon of water. Right?

Unless you live in one of several North Texas cities where residents not only pay for the water they use, but also for what they don't.

It's called the take-or-pay system, and it has been in wide use for decades in cities throughout the western U.S.

It allows providers – such as Dallas Water Utilities and the North Texas Municipal Water District – to require wholesale customers, mainly cities, to "take or pay" for the maximum amount of water those customers used during the previous year, even if the actual usage later is less.

Providers say they need the system because it guarantees revenue to pay for capital expenditures to get water to cities during peak usage.

City officials from Lewisville to Richardson to DeSoto say they understand, but they also know that ratepayers don't want to pay for water they don't – and may never – use.

"Would we like a deal for less? Sure we would, as long as it doesn't tear at the integrity of the system," said Richardson City Manager Bill Keffler.

Peter Gleick, president of the Pacific Institute, an independent research organization in California, said take-or-pay contracts are "great for guaranteeing revenues to water wholesalers, but they stink for customers. These contracts penalize conservation, and they encourage water waste. In the western U.S., where water is scarce and valuable, we have to get a lot smarter than these outdated rate structures."

'We get no payback from it'

Officials in North Texas take-or-pay cities agree that such systems cause hardships.

Lancaster City Manager Jim Landon said he doesn't mind paying more because his city is growing, but he is upset when water providers restrict use during droughts and cities have to pay the same amount.

Duncanville City Manager Kent Cagle put it this way: "We take steps to reduce consumption, but we get no payback from it."

Beth Johnson – a consultant for the Texas Committee on Natural Resources and the statewide chapter of the Sierra Club – said she believes the agency that handles water planning for the region is creating an unnecessary additional water supply.

"The water hustlers have decided to go hog wild in attaining everything, whether it's needed or not," Ms. Johnson said. "That infrastructure and those reservoirs come out of the hides of ratepayers."

But Jim Parks, who heads the Region C Regional Planning Group and the 13-city North Texas Municipal Water District, said conservation can't save enough water to provide for the millions who will eventually call North Texas home.

"One water management strategy calls for conservation. One calls for connecting to new reservoirs. Reuse is another," Mr. Parks said.

Lawmakers get involved

In the Legislature's 2005 regular session, lawmakers required the Texas Water Development Board to study the take-or-pay system. The North Texas Municipal Water District is doing a similar study.

Mr. Parks said the study is about two months from completion. Kevin Ward, executive administrator for the Texas Water Development Board, said the state's study is moving forward as well.

"I think if water conservation becomes part of everyday use, then demands go down and peak uses subside," Mr. Ward said. "When people see that \$100 water bill, then they manage their affairs better. It's like managing teenagers on cellphone use."

For cities like Duncanville that want to reduce their take-or-pay rate, the process is arduous.

Mr. Cagle said the city makes a written request to lower its rate. Then, if the city doesn't exceed its threshold for the next five years, the new take-or-pay rate is approved. However, during those five years, the city has to pay the higher rate.

"The most we've used this year is 9.4 million gallons" per day, Mr. Cagle said. "We've been under our 12.5 million gallons-per-day rate all year."

Dr. Gleick of the Pacific Institute said agreements between the water providers might be needed. He questions why a provider that had too much water couldn't sell to one that needed more.

"Right now, providers are putting all the risk on customers," he said. "If the risk was borne a little more equally, then there wouldn't be this overbuild and there would be an incentive to conserve."

One reason some North Texas cities such as Duncanville and Richardson have reduced their water consumption is because they've adopted a tiered-rate system. That requires customers to pay a premium for higher water usage.

Jody Puckett, director of Dallas Water Utilities, said she sympathizes with take-or-pay cities that use less water than they pay for.

"I know they bristle at that take-or-pay system," she said. "I guess we could look at it, but the peak-day usage would still have to be evaluated."

Using it wisely

Carole Bassinger, Lewisville's public services director, said the take-or-pay system does encourage cities to use water wisely so they don't wind up with a higher take-or-pay number.

"In that horrible summer of 1999 or 2000, we knew we didn't want to increase our take to get through that very hot summer," Ms. Bassinger said. "We encouraged residents only to water on garbage collection days [twice a week], and no watering on Sunday was allowed."

She said Lewisville – which is running the same conservation campaign now – reduced its consumption by about 1 million gallons per day.

"If you knock on doors and really educate people about what you're up against, they understand," Ms. Bassinger said.

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#### **HOW IT WORKS IN NORTH TEXAS**

City	Take-or-pay amounts*	Average usage*
Addison	11	5.3
Allen	4.4	4.7
Carrollton	43	22.4
Cedar Hill	11	7
DeSoto	14.5	7
Duncanville	12.5	5.3
Farmers Branch	19.4	8
Flower Mound	11	6.4
Frisco	5.6	6.5
Garland	13.7	12.4
Grand Prairie	30.8	22.8
Irving	6.7	6.3
Lancaster	6	4
Lewisville	9	6.9
McKinney	6.6	7.2
Mesquite	6	4.9
Plano	26.7	22.4
Richardson	11	8.6
Rockwall	2.3	2.5
The Colony	6	3.9
Wylie	1.3	1.4

\* All figures are in millions of gallons per day. Water providers call the take-or-pay amounts a capacity or demand charge that's needed for them to deliver that amount each day. Cities vary in how often they hit that peak or demand number, if at all. For instance, Grand Prairie hit its peak 49 days last year, while Duncanville never reached its peak.

SOURCES: cities, the North Texas Municipal Water District, Dallas Water Utilities