

Expense Depreciation Funding for Water Main Replacements

Tips for Filing

Water utilities may wish to use expense depreciation to cash fund some portion of their long-term main replacement programs in certain situations. The Commission first approved this funding method on May 26, 2017 in the Marshfield Utilities water rate case. ([PSC REF#: 303885](#).) Water utilities that wish to request approval to use this funding method must include that request as part of a conventional rate case application.

If a water utility is interested in requesting approval from the Commission to use expense depreciation funding, it may wish to consider including the information listed below to help support such a request. The utility should file information in support of its request as testimony and exhibits, preferably at the time it files its rate application.

Although the Commission reviews requests for the expense depreciation funding method based on facts specific to each rate case, it can be beneficial to review recent rate cases where the Commission has approved this funding method. Commission staff encourages utilities that are interested in requesting approval to use expense depreciation funding to also review the Commission's procedures for rate case proceedings, as these cases will go to the full Commission.

- Rate Case Application Documents: at <http://apps.psc.wi.gov/>, type docket number in “Quick Single Docket Search,” and click on the “Documents” button.
 - Marshfield: 3420-WR-106
 - Janesville: 2740-WR-110
 - Fort Atkinson: 2060-WR-106
 - Madison: 3280-WR-116 (pending)
- Guide to PSC Proceedings:
<https://psc.wi.gov/Pages/Regulatory/GuideToPSCProceedings.aspx>.
- Practice and Procedure Before the Public Service Commission of Wisconsin.
<https://psc.wi.gov/Documents/water/PracticeandProcedureBeforethePSC.pdf>.

General Information

1. The annual dollar amount requested for main replacement funded through expense depreciation.
2. The estimated percentage rate increase solely associated with expense depreciation.
3. The current estimated average cost per foot to replace mains. These dollar amounts should include only the cost of mains and should not include the associated cost of service lines and hydrants. The costs should include the cost of engineering and all overhead. (ROR regulation will continue to apply for service lines and hydrants.) It can also be helpful to include a description of the basis for the estimates.
4. The average feet of water main that will be replaced annually using the requested dollar amount of expense depreciation funding.
5. The feet of water main that will be replaced annually using all forms of funding.
6. Information about how the utility will achieve an ongoing, consistent, level of annual main replacement. The utility should describe the expected timeline for replacing the utility's main, including percentage of each vintage of main that will be replaced and the expected year of replacement.
7. Narrative as to why cash funding is equitable and how all generations of rate payers will contribute toward the replacement of mains.
8. Identify other funding sources (debt, cash on hand, etc.) the utility will likely use to fund main replacement.

Information on Age of Main and Main Replacement Plans

9. A copy of Page W-13, Age of Water Mains, from the PSC Annual Report.
10. A copy of Page W-21, Water Mains, from the PSC Annual Report.
11. The feet and costs of mains replaced in the last 10 years, broken out by year.
12. History of last ten years or longer of main breaks per mile of main including vintages and material type if available.
13. Description of the utility's asset management program, capital improvement plan, or other process used to inform and prioritize capital expenditure decisions.
14. Description of the method the utility uses to select mains for replacement, including how the utility assesses both probability of failure and consequence of failure, evaluates repair versus replacement of mains, and how the utility uses this information to make main replacement decisions.
15. Information on how the utility coordinates water main replacements with sewer main replacements and/or street renovation projects.
16. Information that demonstrates local decision makers understand the ongoing rate impact of the expense depreciation mechanism and are committed to a long-term, consistent replacement program.

17. Anything else that may support a Commission decision that the expense depreciation is reasonable, proper, and equitable.

Additional Information Explaining the Expected Benefits of Using Expense Depreciation

18. History of main maintenance costs for the last ten years.
19. History of non-revenue water, broken out into real and apparent losses, for the last ten years. Losses should be reported in gallons and costs associated with the non-revenue water.
20. Description of the potential impact additional main replacement will have on maintenance costs and non-revenue water.
21. Utility's current balance of debt and equity.
22. Description of the potential impact on the utility's capital structure if debt instead of cash funding is used to fund main replacement.
23. Description of the potential impact on the cost of debt if debt instead of cash funding is used to fund main replacement.
24. Description of the impact on the municipality's allocation of its total capacity to issue debt for all municipal purposes if debt instead of cash funding is used to fund main replacement.

Information Explaining the Utility's Ability to Account For and Monitor Progress of Main Replacement Using Expense Depreciation

25. Description of the utility's resources for implementing the necessary accounting requirements including setting up subaccounts for plant in service and accumulated depreciation for mains funded through the expense depreciation program.
26. Description of how funds collected through expense depreciation will be segregated.
27. Identification of bond covenants that could potentially require use of those segregated funds for debt service.
28. Identification of the actions the utility will take if funds are needed to meet debt service requirements.
29. Description of how the utility will report the progress of its cash funded main replacement program annually in the PSC Annual Reports.