

PSC / Water Utility Consultant Meeting

August 12, 2019



Participating Remotely

- Video and PowerPoint Slides
 - Asking Questions

PSC/Water Utility Consultant Meeting Agenda

Tuesday, August 13, 2019

9:00-9:15	Welcome & Introductions	
9:15-9:30	PSC Update	Andy Galvin
9:30-10:00	Review of Ratemaking Process	Denise Schmidt
10:00-10:30	Rate Case Overview & the Application Process	Kathy Butzlaff
10:30-11:00	Construction Case Overview & the Application Process	Mark Williams
11:00-11:20	Rate Impacts from Construction Cases	LouAnn Holzmann
11:20-11:30	Questions & Discussion	

PSC Updates

Andy Galvin

Director, Bureau of Water Utility Regulation & Analysis



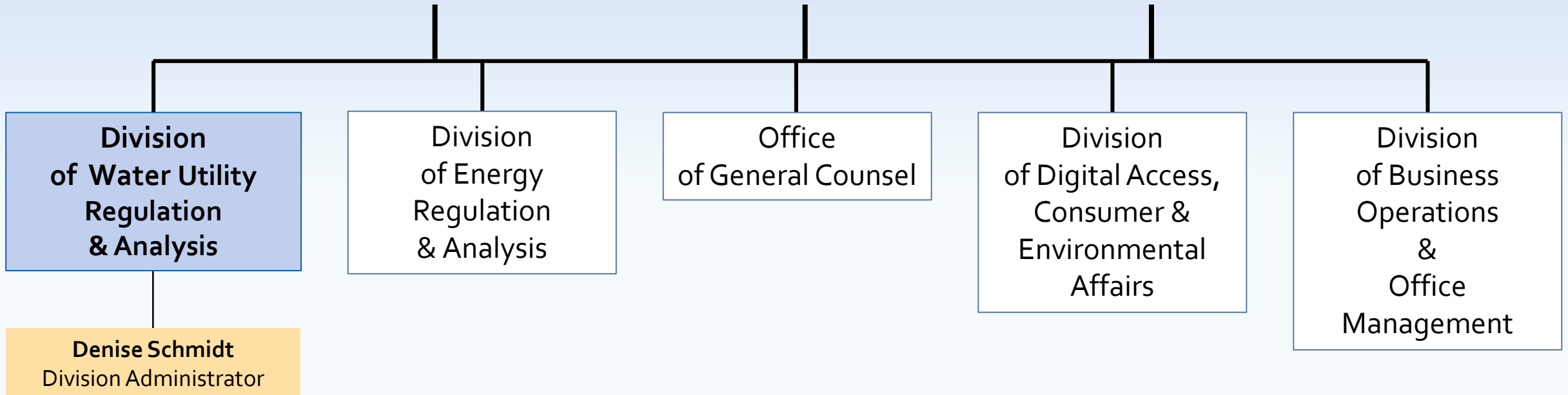
**Chairperson
Becky Valcq**



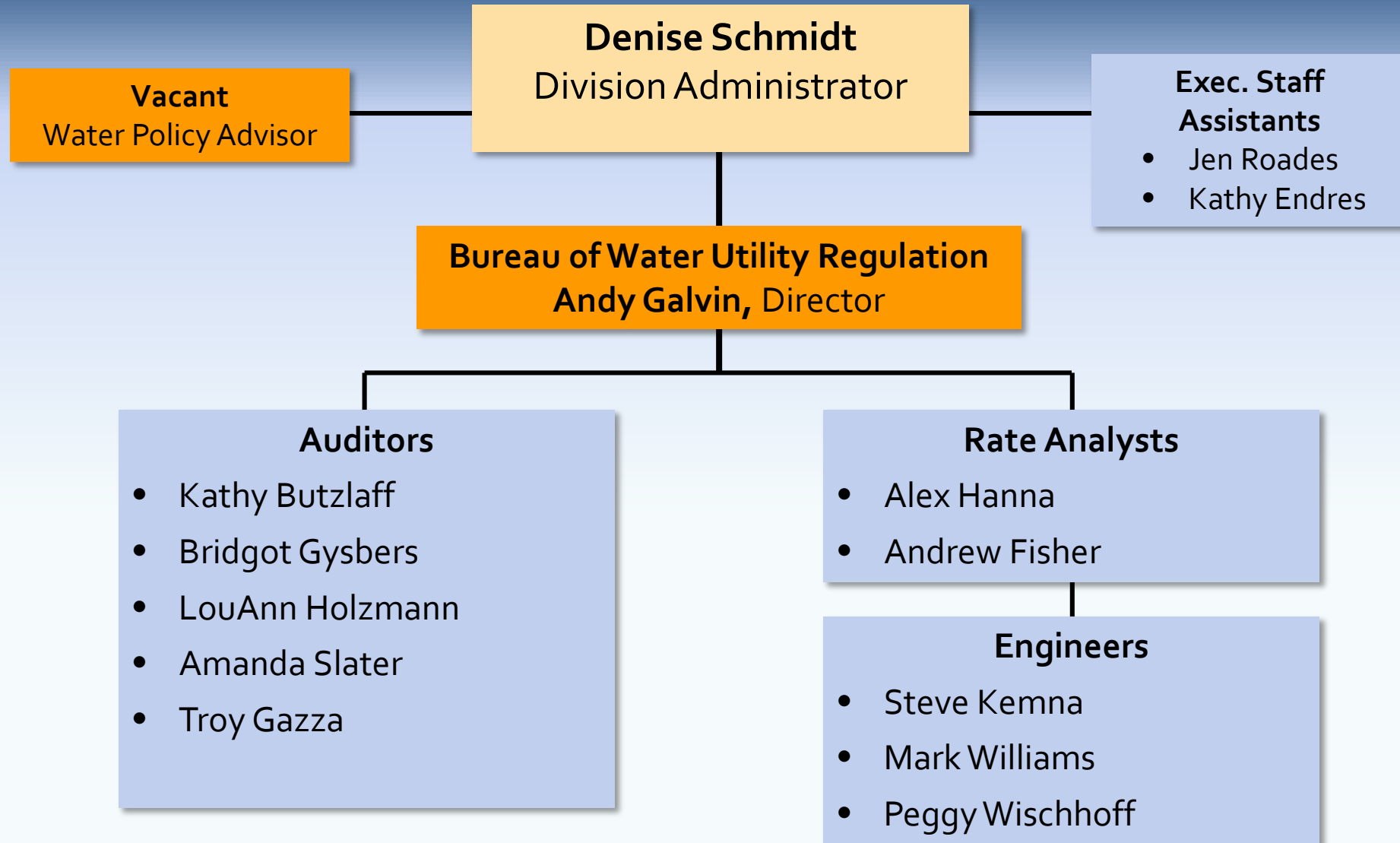
**Commissioner
Mike Huebsch**



**Commissioner
Ellen Nowak**



Division of Water Utility Regulation & Analysis



Managing Your Dockets

➤ Dockets

- All cases before the Commission have unique docket numbers **5555-CW-100**

➤ E-Services Portal <http://apps.psc.wi.gov>

- Case Management System (CMS)
- Electronic Records Filing System (ERF)
- Event Calendar



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Public Service Commission of Wisconsin

The Public Service Commission of Wisconsin (PSC) is an independent regulatory agency dedicated to serving the public interest. The agency is responsible for the regulation of Wisconsin public utilities, including those that are municipally owned, since 1907.



Effective April 23, 2018 the Public Service Commission will consolidate its operations and services into the Hill Farms State Office Building. The new street address:

4822 Madison Yards Way
Madison, Wisconsin 53705-9100

Please see: [Information for Visitors Page](#)


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The Docket Calendar provides online access to the schedule of events in formal cases before the Commission. Unless ordered in a particular docket, this calendar is for public convenience only and provides no official notice of a docket schedule. Not all dockets may appear on this calendar. For the official schedule in a particular docket, check the notices and orders filed in that docket in the Electronic Records Filing System at <https://apps.psc.wi.gov/pages/ERFHome.htm>

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April 2019

[May](#)

Sun	Mon	Tue	Wed	Thu	Fri	Sat
31	1	2	3 1510-TE-101 Hearing: Public and Party Sessions 4280-TE-101 Hearing: Public and Party Sessions	4	5 5-CE-146 Hearing: Motion 137-CE-189 Offered Evidence Rebuttal : Parties and Commission Staff	6
7	8	9	10 3160-WR-105 Hearing: Public and Party Sessions	11	12 137-CE-189 Offered Evidence Surrebuttal : Parties and Commission Staff	13
14	15	16 137-CE-189 Offered Evidence Other: Errata Testimony and Replacement Exhibits	17 137-CE-189 Hearing: Public and Party Sessions	18	19 5-CE-146 Hearing: Motion 137-CE-189 Transcript: Draft Transcript	20
21	22 137-CE-189 Offered Evidence Other: Exhibits Offered and Received at Hearing 137-CE-189 Offered Evidence Other: Revised Testimony 137-CE-189 Offered Evidence Other: Witness Verification Affidavits	23 5450-PFP-100 Hearing: Public and Party Sessions 5450-PW-100 Hearing: Public and Party Sessions	24 2510-ER-105 Hearing: Public and Party Sessions 137-CE-189 Transcript: Proposed Corrections to Draft Transcript	25	26 5-CE-146 Offered Evidence Direct : Intervenor and Commission Staff 137-CE-189 Transcript: Objections to Proposed Corrections to Draft Transcript	27
28	29	30 137-CE-189 Brief: Initial Brief 90-WR-104 Hearing: Public and Party Sessions	1	2	3	4
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Operational Changes

➤ Subscribing to PSC Dockets

5555-CW-100

- In the future, all correspondence will be sent only to utilities and other parties that are subscribed to the docket.
- In particular, for your cases, make sure your key staff and consultants are subscribed

<http://apps.psc.wi.gov>



Water Currents

A newsletter of the PSC's Division of Water, Telecommunications, and Consumer Affairs

Water Currents Is Back!

After several years on hiatus, PSC's *Water Currents* is back. In addition to our new logo, you'll notice we've broadened the scope of our newsletter beyond its original focus on conservation and efficiency topics. In each edition, we'll cover a variety of topics related to the PSC's water utility regulatory programs. We hope you find the newsletter helpful, and we welcome your feedback.

Meet PSC's Water Team

Kathleen Butzlaff

Kathy is Water Audit Manager at the PSC, where she has worked since 1990. In this time, Kathy has reviewed hundreds of Conventional Rate Cases (CRCs), with a primary focus on establishment of the annual revenue requirement used to determine customer rates. In addition, Kathy prepares rate impact estimates as part of the review of large construction projects and works on the PSC's financial outreach program. Kathy is a graduate of the UW-Madison with a Bachelor of Business Administration degree and a major in accounting.

Joshua Cole

Joshua joined the PSC as an executive staff assistant for the Division of Water, Telecommunications, and Consumer Affairs in August of 2017 and is the primary contact on simplified rate cases. Prior to working at the PSC, Joshua worked for the State of Florida at the Justice Administrative Commission as a paralegal. Joshua has an Associate of Arts degree and a Paralegal and Legal Studies degree from Tallahassee Community College.



Interested in Receiving “Water Currents?”

Send email to kathy.endres@wisconsin.gov
with “Water Currents” in subject line

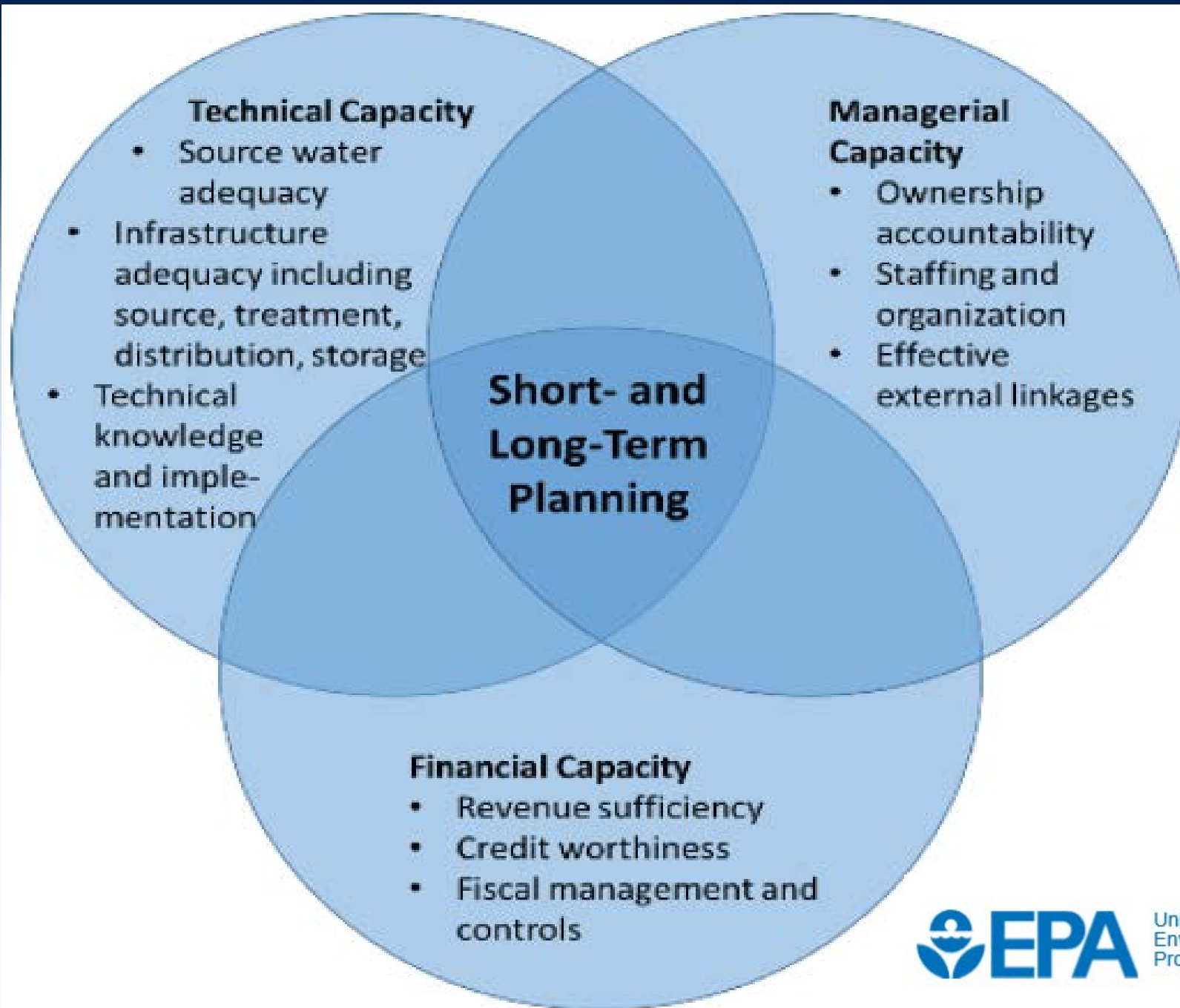
A green starburst graphic with multiple points, centered on the slide.

**When in doubt,
call us!**

Utility Inquiry Line: 608-266-3766

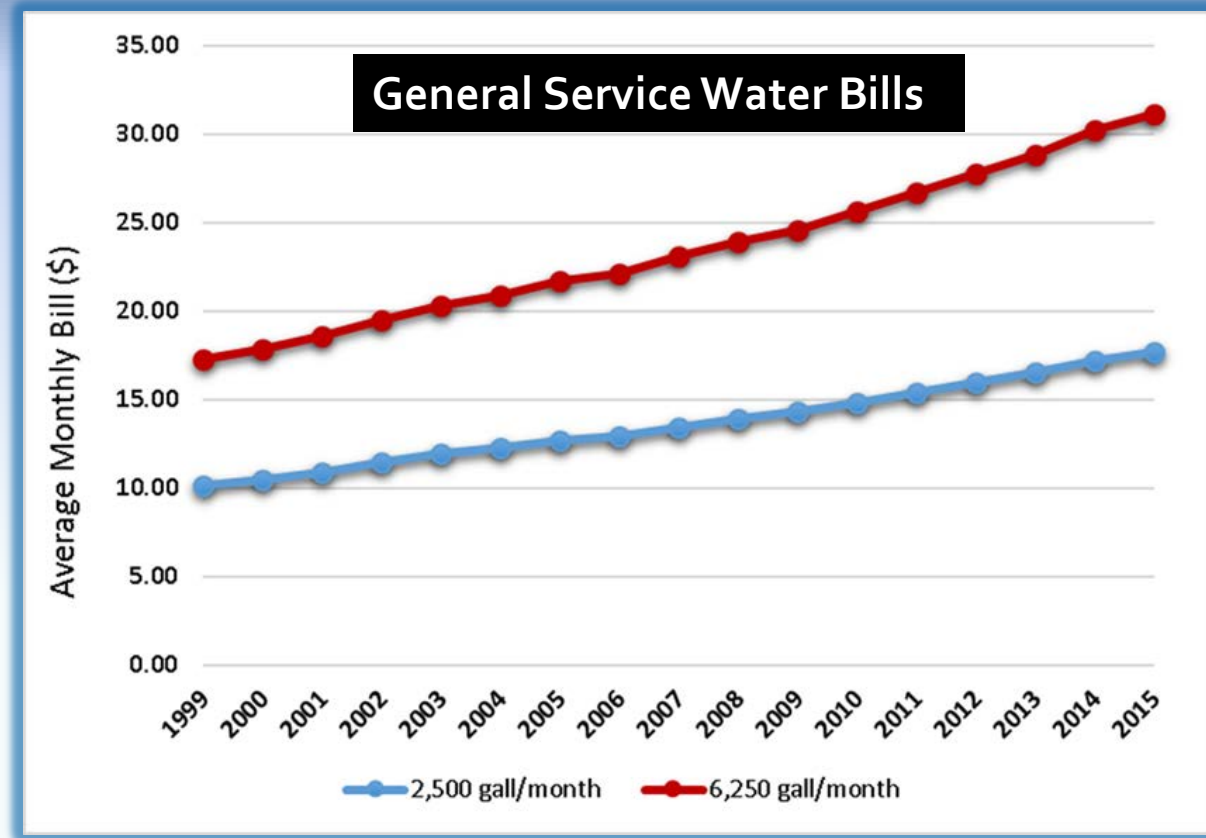
Review of the Ratemaking Process

Denise Schmidt, Administrator
Division of Water Utility Regulation & Analysis



Drivers of Change in Water Rates

- Changing demand patterns
- Aging infrastructure, deferred maintenance and replacement
- Increasing capital and operating costs
- Emerging regulatory requirements
- Decline in grant funding





NARUC

National Association of Regulatory
Utility Commissioners

RATE CASE AND AUDIT MANUAL

Prepared by:

NARUC Staff Subcommittee
on Accounting and Finance

Summer 2003

Principles of Public Utility Rates

JAMES C. BONBRIGHT
ALBERT L. DANIELSEN
DAVID R. KAMERSCHEN

Public Utilities Reports, Inc.

Manual of Water Supply Practices

M1

Principles of Water Rates, Fees, and Charges

Seventh Edition



American Water Works
Association

AWWA's Financial Sufficiency Policy

Utilities Should:

- Collect sufficient revenues to finance all operating/maintenance expenses and capital costs

AWWA's Financial Sufficiency Policy

Utilities Should:

- Collect sufficient revenues to finance all operating/maintenance expenses and capital costs
- **Not divert revenues for unrelated purposes**



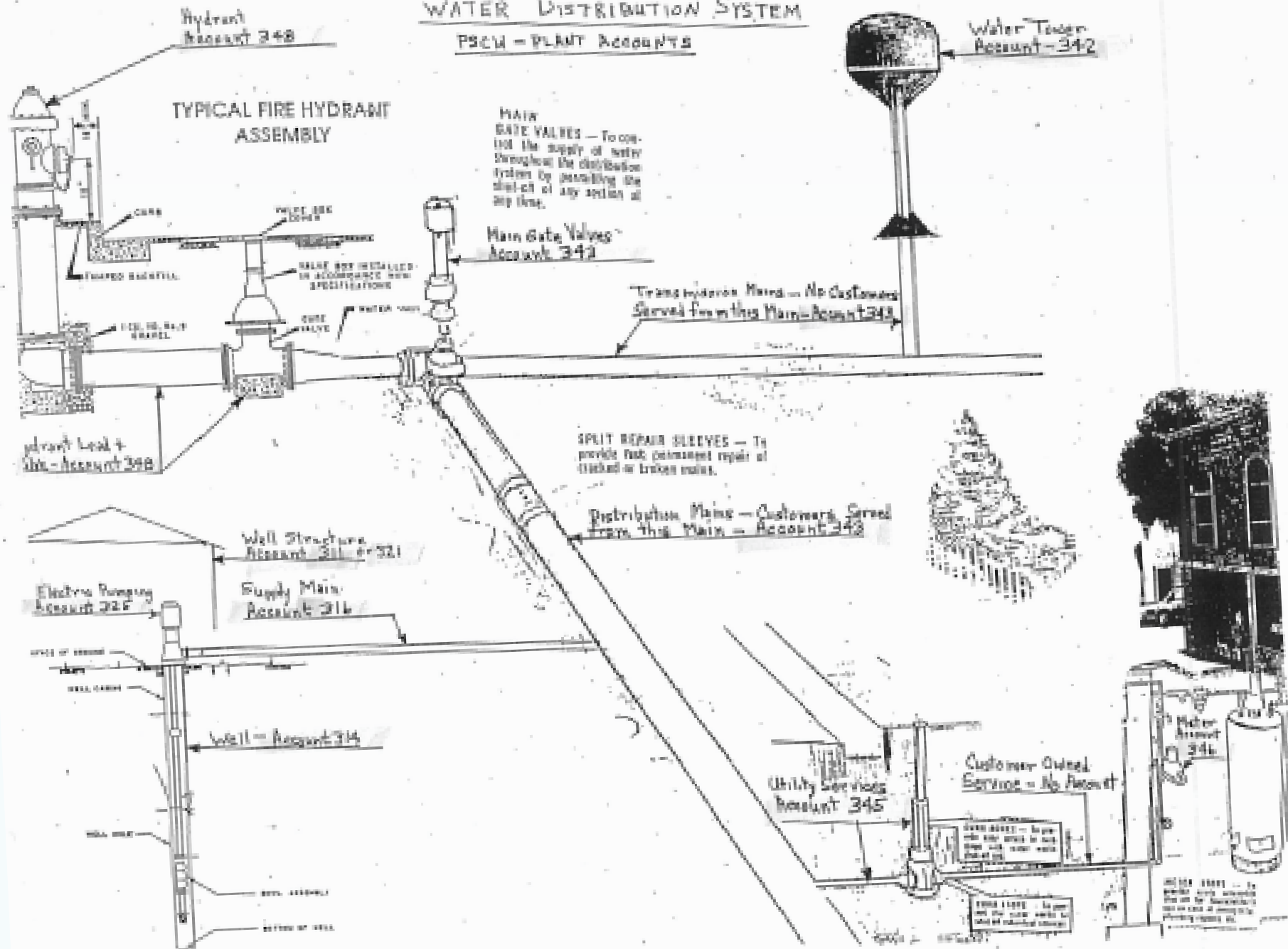
AWWA's Financial Sufficiency Policy

Utilities Should:

- Collect sufficient revenues to finance all operating/maintenance expenses and capital costs
- Not divert revenues for unrelated purposes
- **Track and report costs according to a Uniform System of Accounts**

WATER DISTRIBUTION SYSTEM

PSCW - PLANT ACCOUNTS



Utility Plant Accounts

1. Intangible Plant

- 301 Organization
- 302 Franchises and Consents
- 303 Miscellaneous Intangible Plant

2. Source of Supply Plant

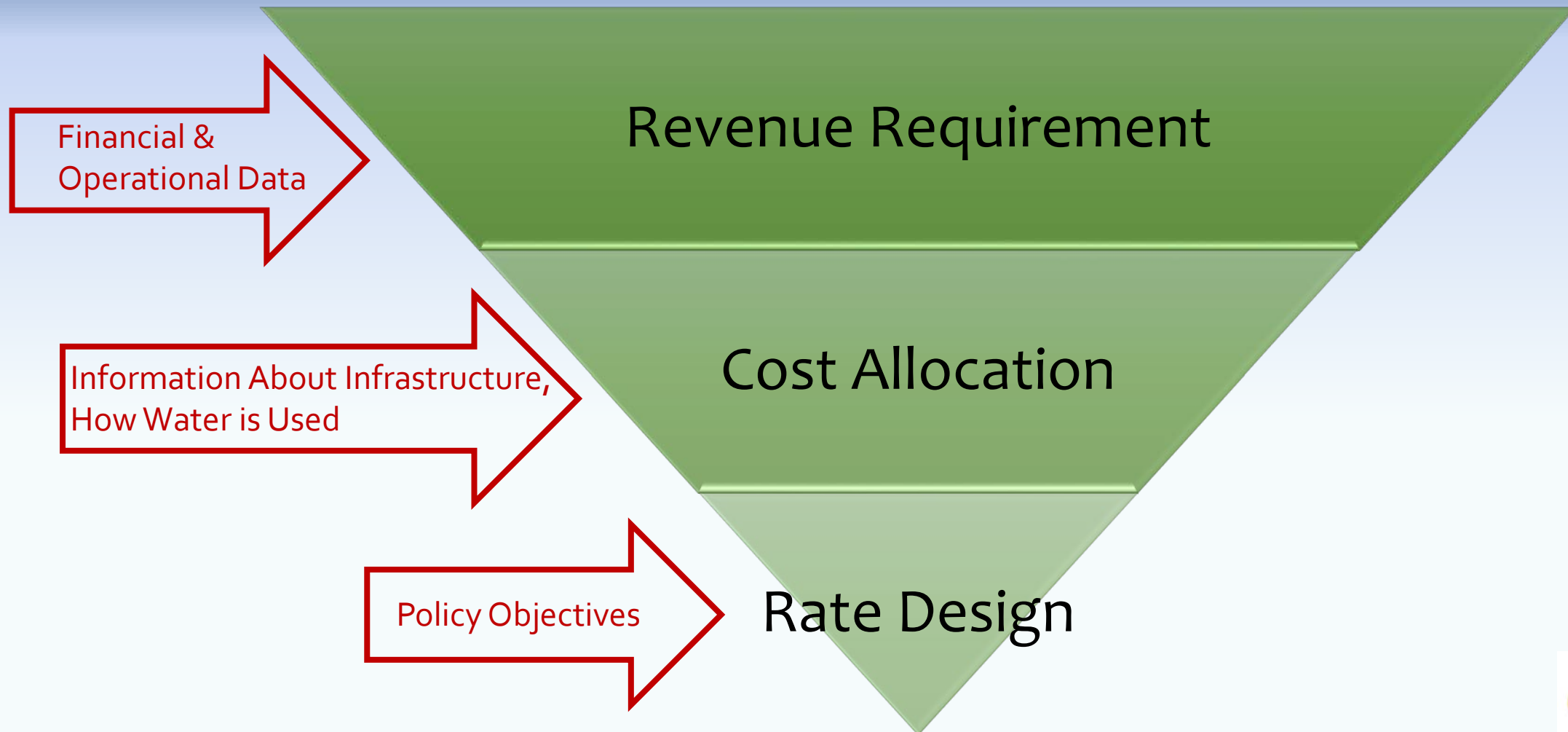
- 310 Land and Land Rights
- 311 Structures and Improvements
- 312 Collecting and Impounding Reservoirs
- 313 Lake, Rivers, and Other Intakes
- 314 Wells and Springs
- 316 Supply Mains
- 317 Other Water Source Plant

AWWA's Financial Sufficiency Policy

Utilities Should:

- Collect sufficient revenues to finance all operating/maintenance expenses and capital costs
- Not divert revenues for unrelated purposes
- Track and report costs according to a Uniform System of Accounts
- **Establish rates that are based on cost and avoid subsidizing customers**

Ratemaking Overview



Revenue Requirement Components

Reasonable O&M expenses: maintenance, billing, customer service, etc.

+

Depreciation as a way to recover capital investment

+

(Reasonable rate of return) x (Rate Base)

+

Property, income taxes, PILOT

=

Revenue Requirement

Revenue Requirement and Debt Service

- In the regulatory rate model, cash flow is generated by depreciation expense and ROR
- Cash flow is used for:
 - Principal and interest payments
 - Minor plant additions
 - Unexpected expenses
 - Savings for the future

Dollars Recovered Through Rates

Revenue Requirement	\$10,500,000
Less fee and other revenues collected for capital projects (ex: impact fees, assessments)	(500,000)
Less costs related to contributed plant (ROR and depreciation)	(2,000,000)
Less other revenue (ex: private fire protection fees, grants, etc.)	<u>(50,000)</u>
Rate Revenue Needed	\$7,950,000

Cost of Service Principles

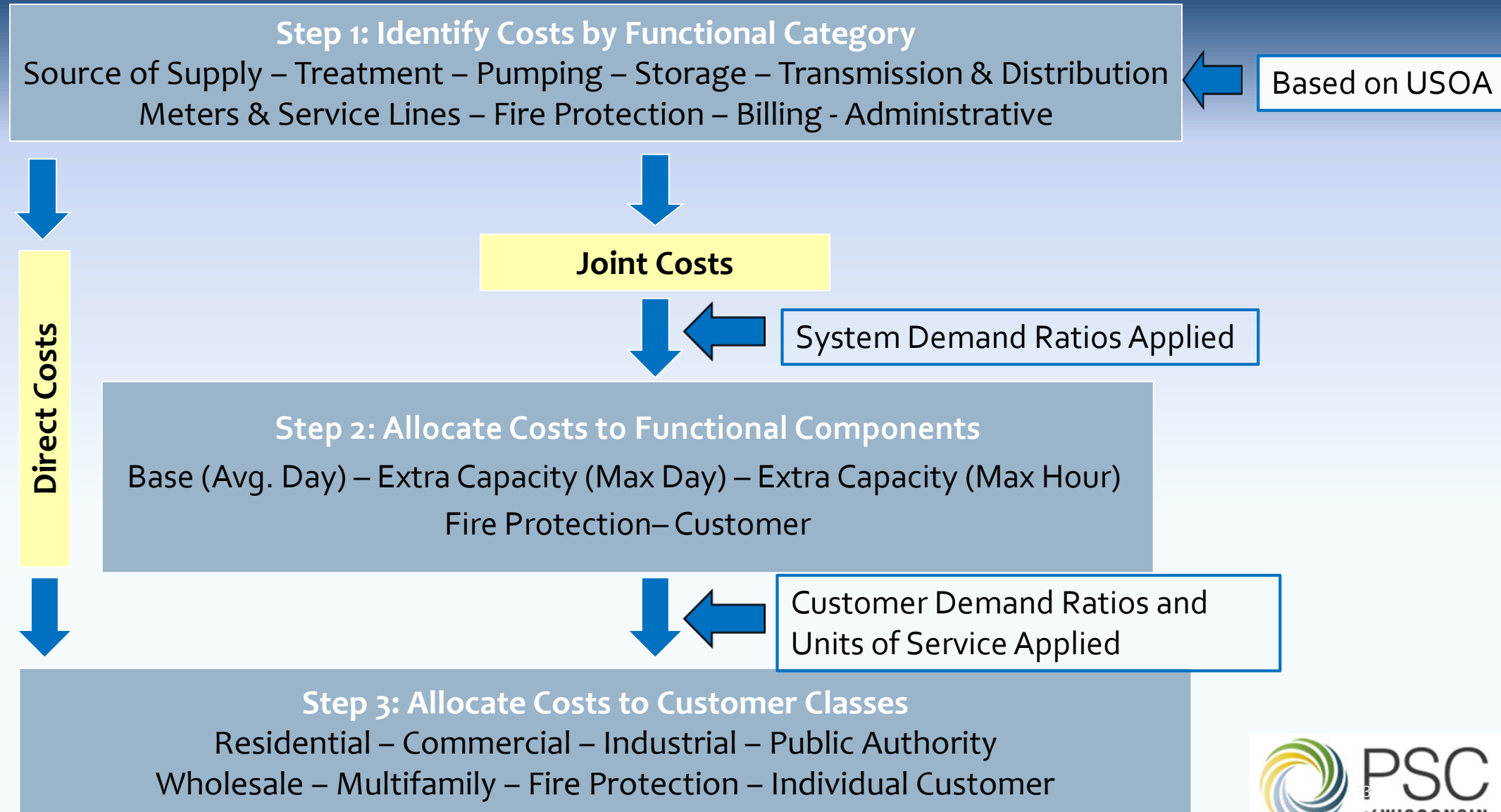
- Allocate costs to functional categories
 - Base or average use costs
 - Extra-capacity or peak demand costs
 - Customer costs
 - Fire protection costs
- Group customers with similar usage characteristics
- Allocate costs to customer classes proportionate to their demands on the system

Customer Classes

- Residential – Single Family
- Residential – Multifamily
- Commercial
- Industrial
- Public Authority
- Irrigation
- Raw Water
- Individual Customer – typically for a large industrial customer with either high or low peak demands
- Wholesale

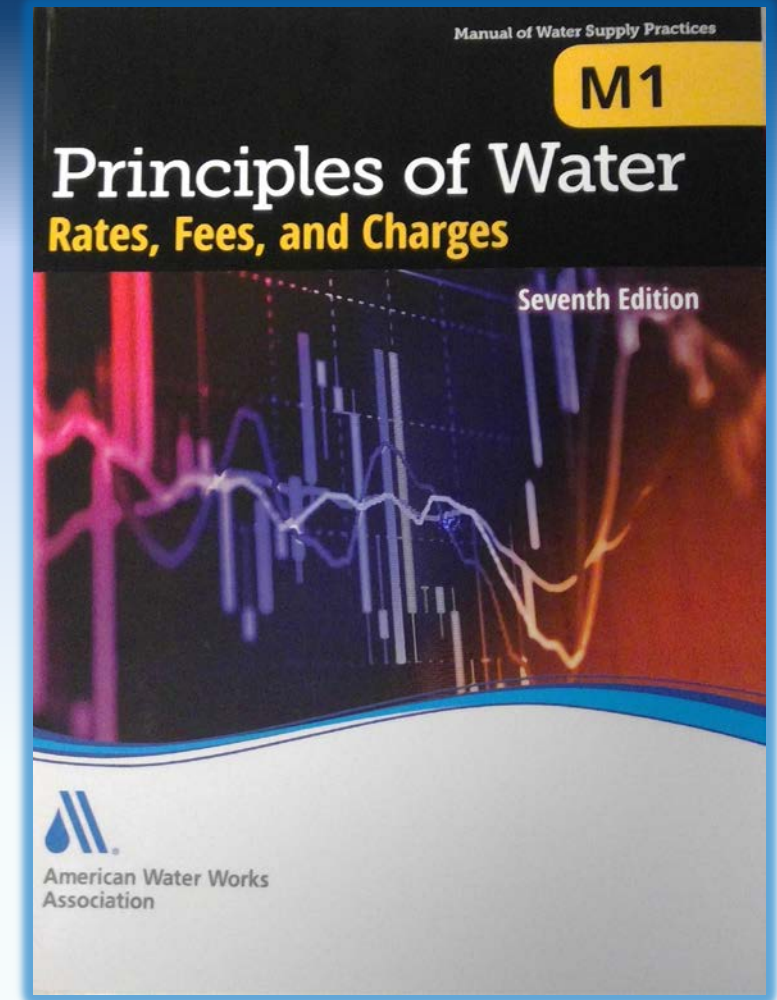


Cost Allocation Under Base-Extra Capacity Method

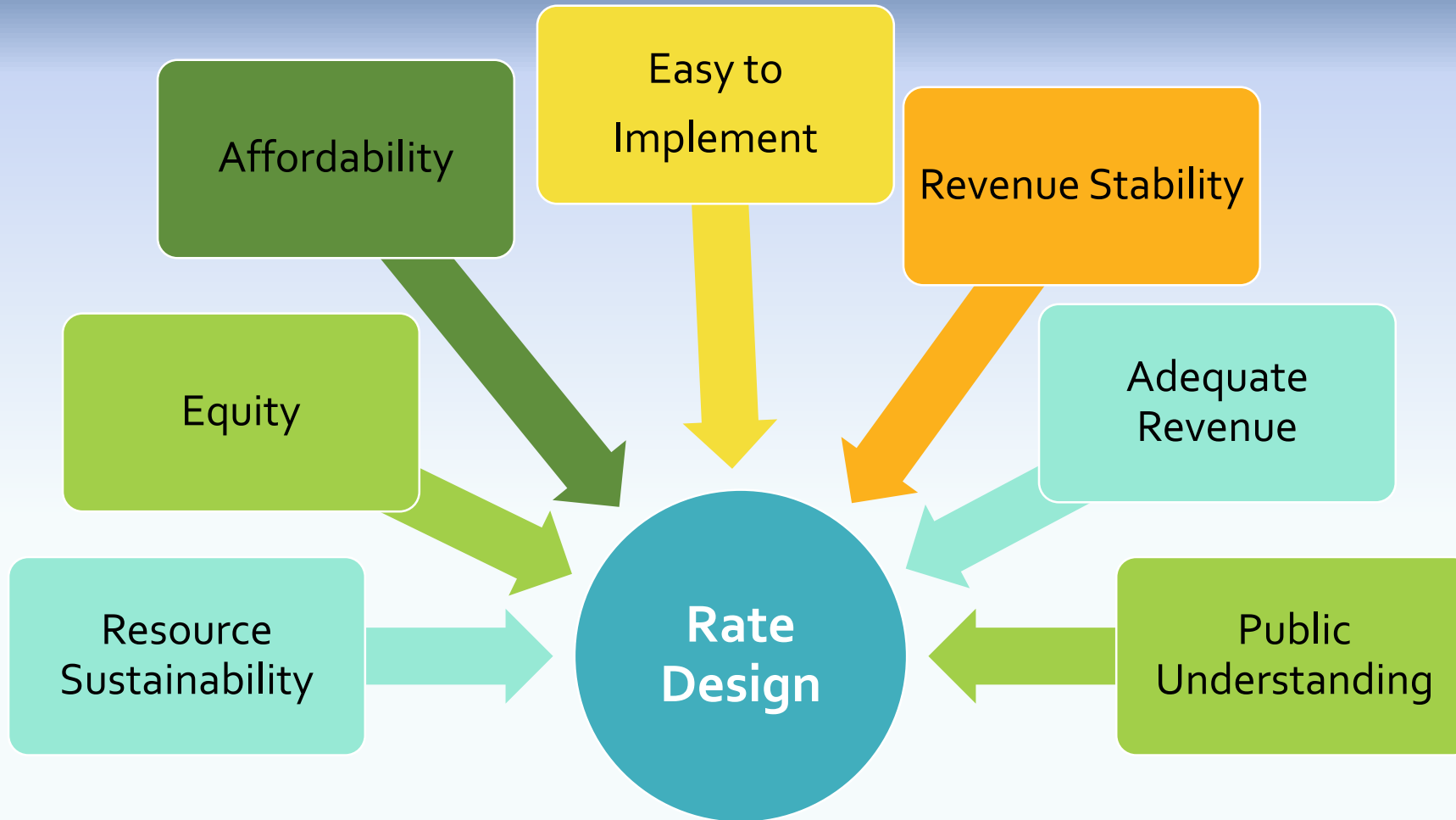


COSS Results

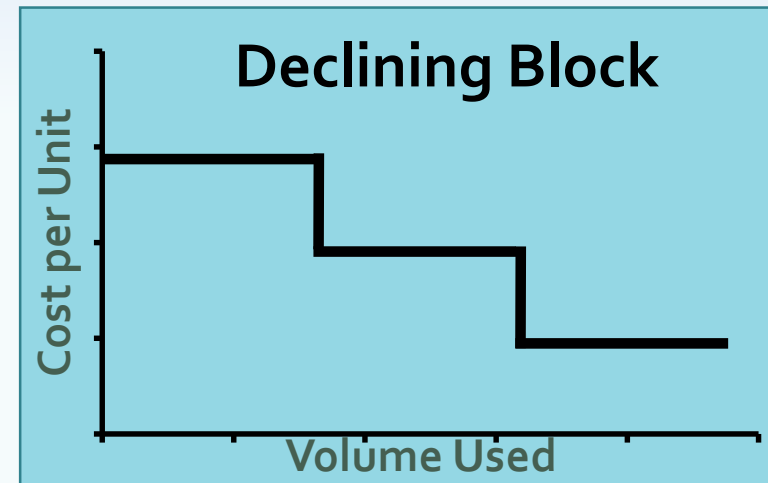
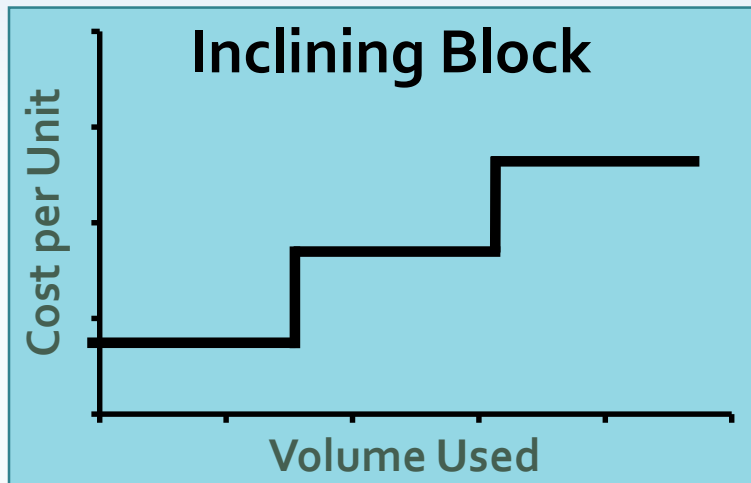
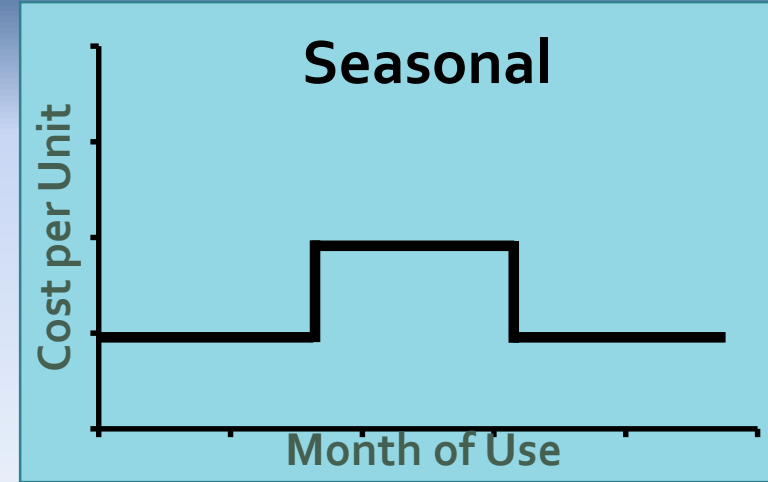
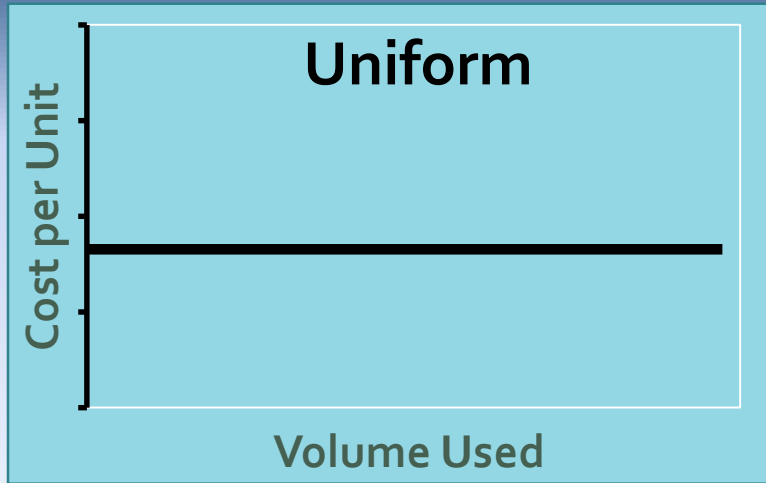
- Revenue level to be recovered from each customer class
- Average unit costs for each customer class
 - Fixed customer charges (\$ per billing period)
 - Variable volumetric charges (\$ per volume)
 - Fixed fire protection charges (PFP)



Water Rate Design – Policy Considerations



Traditional Water Rate Design Options



Uniform Rate Structure

By Customer Class

Advantages

- Cost-of-Service based
- Public acceptance

Disadvantages

- Administrative complexity
- Customers using same volumes can be in different classes
- Need to keep up with changes in use

System-wide

Advantages

- Administrative simplicity
- Public understanding

Disadvantages

- Not Cost-of Service based unless use customer class based rates

Example: Class-Based, Uniform Rates

<u>Customer Class</u>	<u>Extra Capacity Ratios</u>	
	<u>Max Day</u>	<u>Max Hour</u>
Residential	2.50	5.45
Multifamily	2.25	5.00
Commercial	1.75	4.00
Industrial	1.15	2.50
Public Authority	1.75	4.00
Ace Ethanol, LLC	0.425	0.791

Plus Volume Charges:

Residential Customers

All water used per quarter -\$6.69 per 1,000 gallons

Multifamily Customers

All water used per quarter -\$7.08 per 1,000 gallons

Commercial Customers:

All water used per quarter -\$6.01 per 1,000 gallons

Industrial Customers:

All water used per quarter -\$5.16 per 1,000 gallons

Public Authority Customers:

All water used per quarter -\$6.74 per 1,000 gallons

Ace Ethanol, LLC:

All water used per quarter -\$4.87 per 1,000 gallons

Block Rate Structures

Advantages

- Support conservation (inclining), or support economic development (declining)
- May simplify billing (declining)

Disadvantages

- Administrative complexity (inclining)
- Perceived as encouraging wasteful use (declining)
- Public perception with regard to equity

Ex: Inclining Block Rate for Residential

Monthly Service Charges (All Customer Classes):

5/8 -inch meter - \$	11.00	3 -inch meter - \$	86.00
3/4 -inch meter - \$	11.00	4 -inch meter - \$	140.00
1 -inch meter - \$	19.00	6 -inch meter - \$	258.00
1 1/4 -inch meter - \$	26.00	8 -inch meter - \$	404.00
1 1/2 -inch meter - \$	33.00	10 -inch meter - \$	535.00
2 -inch meter - \$	51.00	12 -inch meter - \$	705.00

Plus Volume Charges:

Residential Customers:

First	2,000	gallons used monthly - \$5.40 per 1,000 gallons
Next	8,000	gallons used monthly - \$7.00 per 1,000 gallons
Over	10,000	gallons used monthly - \$9.50 per 1,000 gallons

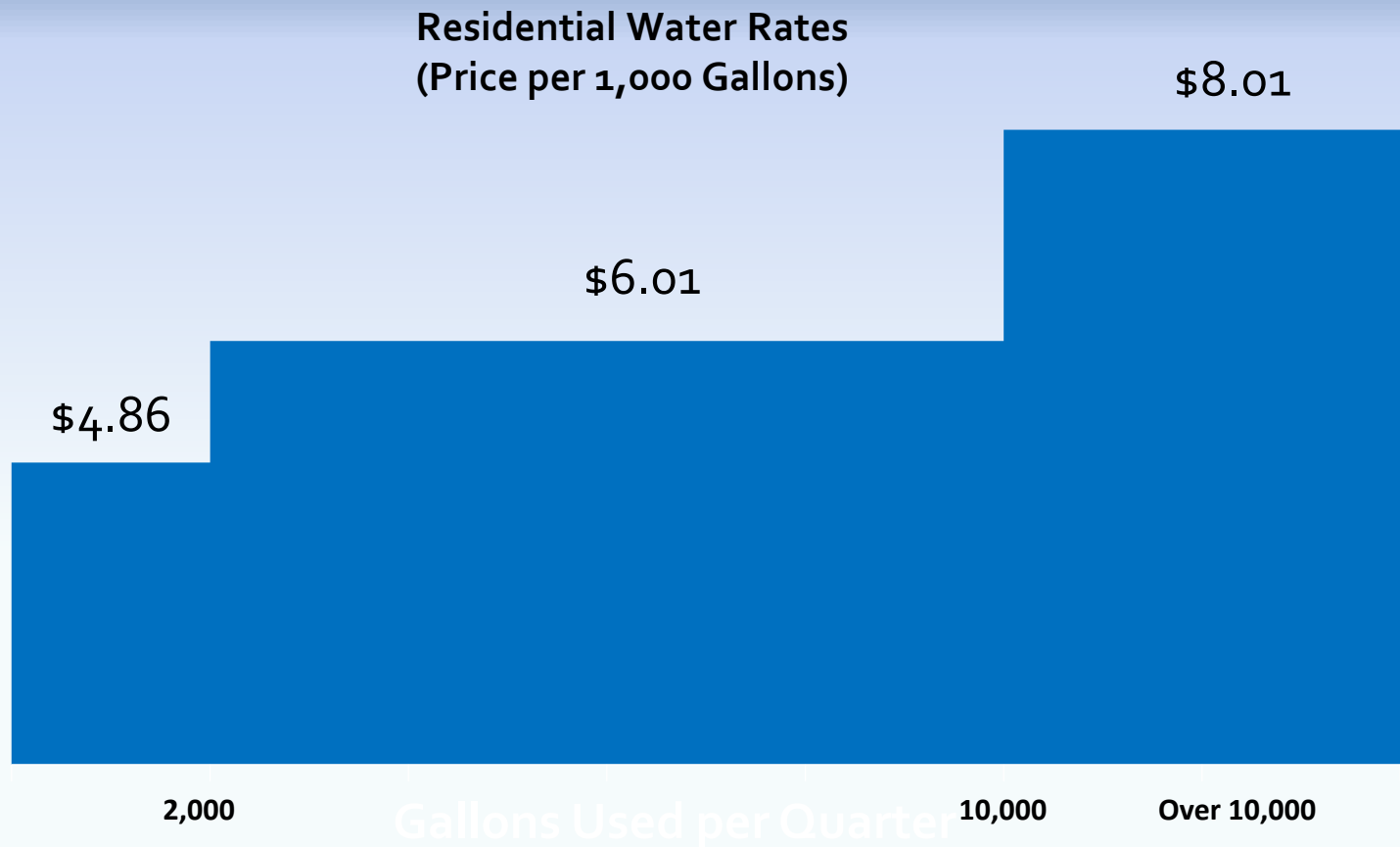
Multifamily Residential Customers:

All water used monthly - \$6.80 per 1,000 gallons

Nonresidential Customers:

All water used monthly - \$6.80 per 1,000 gallons

Example: Addressing conservation and affordability objectives



5/8" Meter Charge = \$30.30 per quarter

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Snapshot: Standard Rate Schedule

RATE FILE

Public Service Commission of Wisconsin

Baldwin Municipal Water Utility

Sheet No. 1 of 2

Schedule No. Mg-1

Amendment No. 17

General Service - Metered

Quarterly Service Charges (All Customer Classes):

5/8 -inch meter - \$	18.00	3 -inch meter - \$	117.00
3/4 -inch meter - \$	18.00	4 -inch meter - \$	156.00
1 -inch meter - \$	36.00	6 -inch meter - \$	222.00
1 1/4 -inch meter - \$	45.00	8 -inch meter - \$	324.00
1 1/2 -inch meter - \$	54.00	10 -inch meter - \$	453.00
2 -inch meter - \$	84.00	12 -inch meter - \$	585.00

Plus Volume Charges:

Residential Customers:

All water used per quarter - \$3.07 per 1,000 gallons

Nonresidential Customers:

First	15,000	gallons used quarterly - \$3.05 per 1,000 gallons
Next	35,000	gallons used quarterly - \$2.70 per 1,000 gallons
Next	450,000	gallons used quarterly - \$2.50 per 1,000 gallons
Over	500,000	gallons used quarterly - \$1.35 per 1,000 gallons

Irrigation Customers:

All water used per quarter - \$5.05 per 1,000 gallons

Snapshot: Standard Rate Schedule

- **PFP Charge** recovers costs associated with building and maintaining capacity to provide high pressures and flows to hydrants for the purpose of fire suppression
- Portion of wells, pumps, storage facilities, water mains, and hydrants
- It is not simply a “hydrant rental” fee

RATE FILE

Sheet No. 1 of 1

Schedule No. F-1

Amendment No. 28

Public Service Commission of Wisconsin

Onalaska Municipal Water Utility

Public Fire Protection Service

The annual charge for public fire protection service to the City of Onalaska shall be \$403,078. The utility may bill for this amount in equal quarterly installments

Public fire protection service includes the use of hydrants for fire protection service only and such quantities of water as may be demanded for the purpose of extinguishing fires within the service area. This service shall also include water used for testing equipment and training personnel. For all other purposes, the metered or other rates set forth, or as may be filed with the Public Service Commission, shall apply.

Billing: Same as Schedule Mg-1.



Exploring Public Fire Protection Charges in Wisconsin

MARCH 7, 2018 / EVAN KIRK / 0 COMMENTS

In addition to Rates Dashboards, the [Environmental Finance Center at the University of North Carolina at Chapel Hill](#) regularly publishes tables of water rates and rate structures of various states. Last month, in addition to tables of water and wastewater rates, the EFC at UNC also published [tables of public fire protection charges](#) in Wisconsin as of January 2018. These data tables are one of several products created from data for water rates and rate structures of 575 water utilities throughout the state of Wisconsin. The data tables list each utility's residential water rate structure details, monthly-equivalent bills computed at different consumption levels, and public fire protection charge information.

This post explores what fire protection charges are, how they are collected, and how system size plays a role.

[Continue reading](#)

Source: <http://efc.web.unc.edu/?s=fire+protection>

Cost of Service Comparison:

**Centuria Municipal Water and Sewer Utility
Comparison of Revenue
at
Present Rates, Cost of Service and Proposed Rates**

Customer Class	Revenue at Present Rates	Cost of Service		Proposed Rates		
		Revenue Required	Increase over Present Rates	Revenue	Increase over Present Rates	Percent of Cost of Service
Residential	\$45,576	\$66,560	46.04%	\$66,814	46.60%	100.38%
Multifamily Residential	\$11,291	\$13,831	22.50%	\$15,056	33.34%	108.85%
Commercial	\$23,756	\$33,732	41.99%	\$32,480	36.72%	96.29%
Public Authority	\$1,481	\$1,393	-5.96%	\$1,847	24.72%	132.63%
Public Fire Protection	\$39,459	\$49,353	25.08%	\$49,353	25.08%	100.00%
Total	<u>\$121,563</u>	<u>\$164,869</u>	<u>35.62%</u>	<u>\$165,549</u>	<u>36.18%</u>	<u>100.41%</u>

How close is
each class
to 100%?

Bill Comparison:

- Is the impact on any customer group high compared to others?
- Does the impact make sense, given the group's burden on the system?
- Are the impacts aligned with rate-making objectives?

Customer Type	Meter Size	Volume (1000 Gallons)	Quarterly		Percent Change
			Bills at Old Rates	Bills at New Rates	
Small Residential	5/8"	4	\$ 37.22	\$ 51.00	37.02%
Average Residential	5/8"	8	\$ 48.98	\$ 72.00	47.00%
Large Residential	5/8"	15	\$ 69.56	\$ 108.75	56.34%
Large Residential	5/8"	30	\$ 113.66	\$ 187.50	64.97%
Large Residential	5/8"	45	\$ 152.96	\$ 238.50	55.92%
Multifamily Residential	1 1/2"	60	\$ 262.28	\$ 355.50	35.54%
Multifamily Residential	1 1/2"	220	\$ 636.48	\$ 854.50	34.25%
Multifamily Residential	2"	70	\$ 342.59	\$ 443.50	29.46%
Multifamily Residential	2"	190	\$ 626.99	\$ 821.50	31.02%
Commercial	1"	230	\$ 606.76	\$ 832.50	37.20%
Commercial	1 1/2"	70	\$ 288.48	\$ 389.50	35.02%
Commercial	2"	195	\$ 637.59	\$ 836.00	31.12%
Commercial	2"	900	\$ 2,132.19	\$ 2,880.50	35.10%
Public Authority	5/8"	1	\$ 28.40	\$ 35.25	24.12%
Public Authority	2"	35	\$ 250.89	\$ 324.50	29.34%
Public Fire Protection (Annual charge)			\$ 39,459	\$ 49,353	25.08%



Are Utilities that Need to Raise Rates Actually Raising Rates?

MARCH 2, 2017 / SHADI ESKAF / 0 COMMENTS

What happens if a water utility collects less in revenues than it pays in expenditures in one year? It will raise some alarms, but some utilities might be able to weather that shortfall by dipping into their reserves and bounce back the following year. But what happens if a water utility collects less in revenues than it pays in expenditures in *three consecutive years*? That is probably a strong indication that the rates it is charging its customers are too low. Assuming that expenses cannot be significantly reduced, a rate increase is almost certainly necessary. So are utilities in this position raising rates the following year, or are there obstacles that may be chronically preventing the adoption of rate increases? In this post, I analyze ten years of financial and rates data from hundreds of North Carolina utilities to explore this question.

Source:

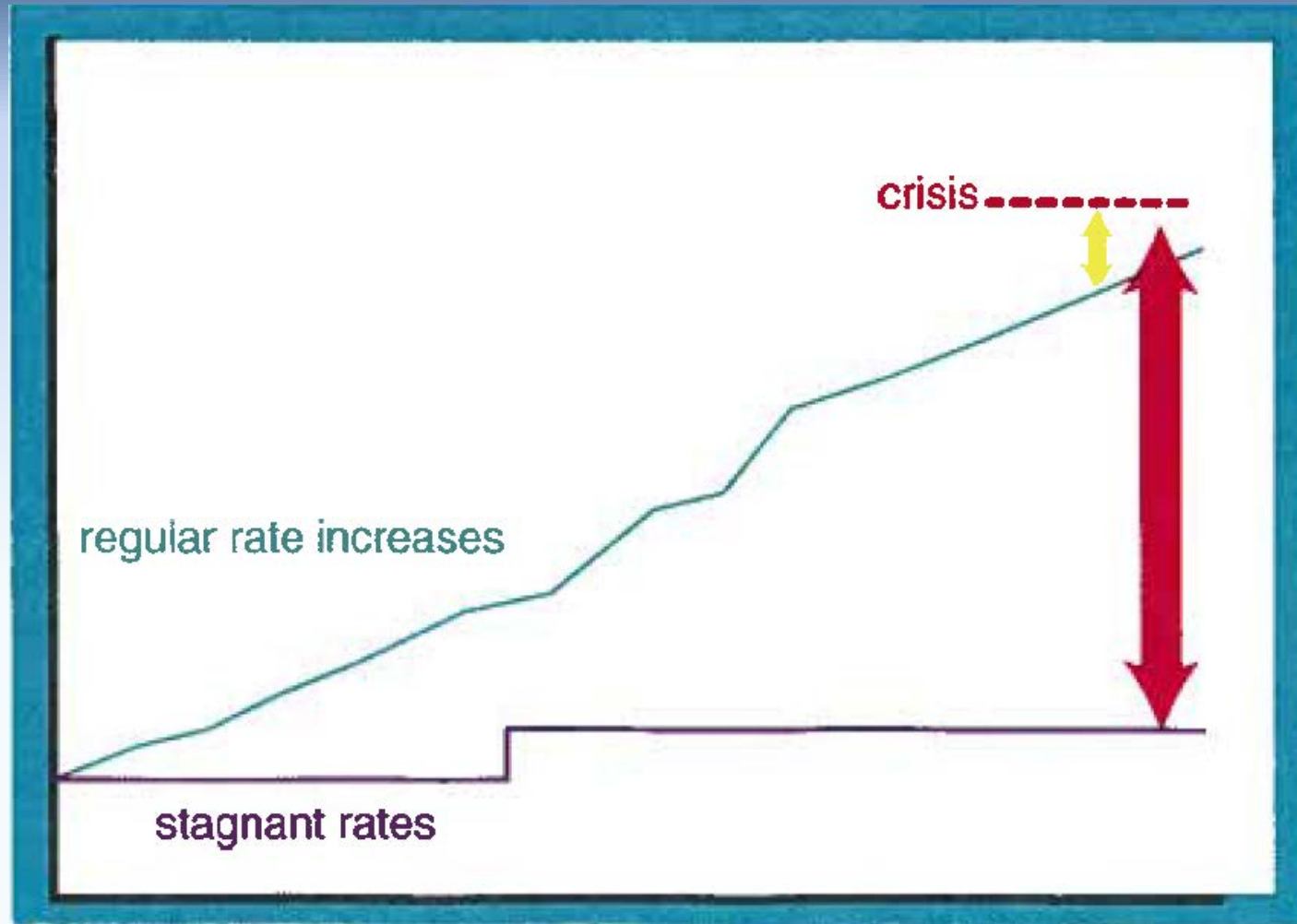
<http://efc.web.unc.edu/?s=are+utilities+that+need+to+raise+rates+actually+raising+rates%3F>

Financial Outreach Program

- Evaluation based on annual report data
- Metrics
 - Fewer than 90 days' cash on hand, AND
 - Two consecutive years of operating losses, AND
 - No rate case within last year
- Commission may open investigation: Are rates reasonable?
- **Goal:** Within 18 months, Utility takes action to improve financial situation



Encouraging More Frequent, Smaller Rate Increases



Source: AWWA, "Avoiding Rate Shock: Making the Case for Water Rates"

CITY OF ANN ARBOR
WATER & SEWER RATE STUDY
ADVISORY COMMITTEE DISCUSSION

Comparing Rates: What makes sense?

Quarterly Residential Fee Survey

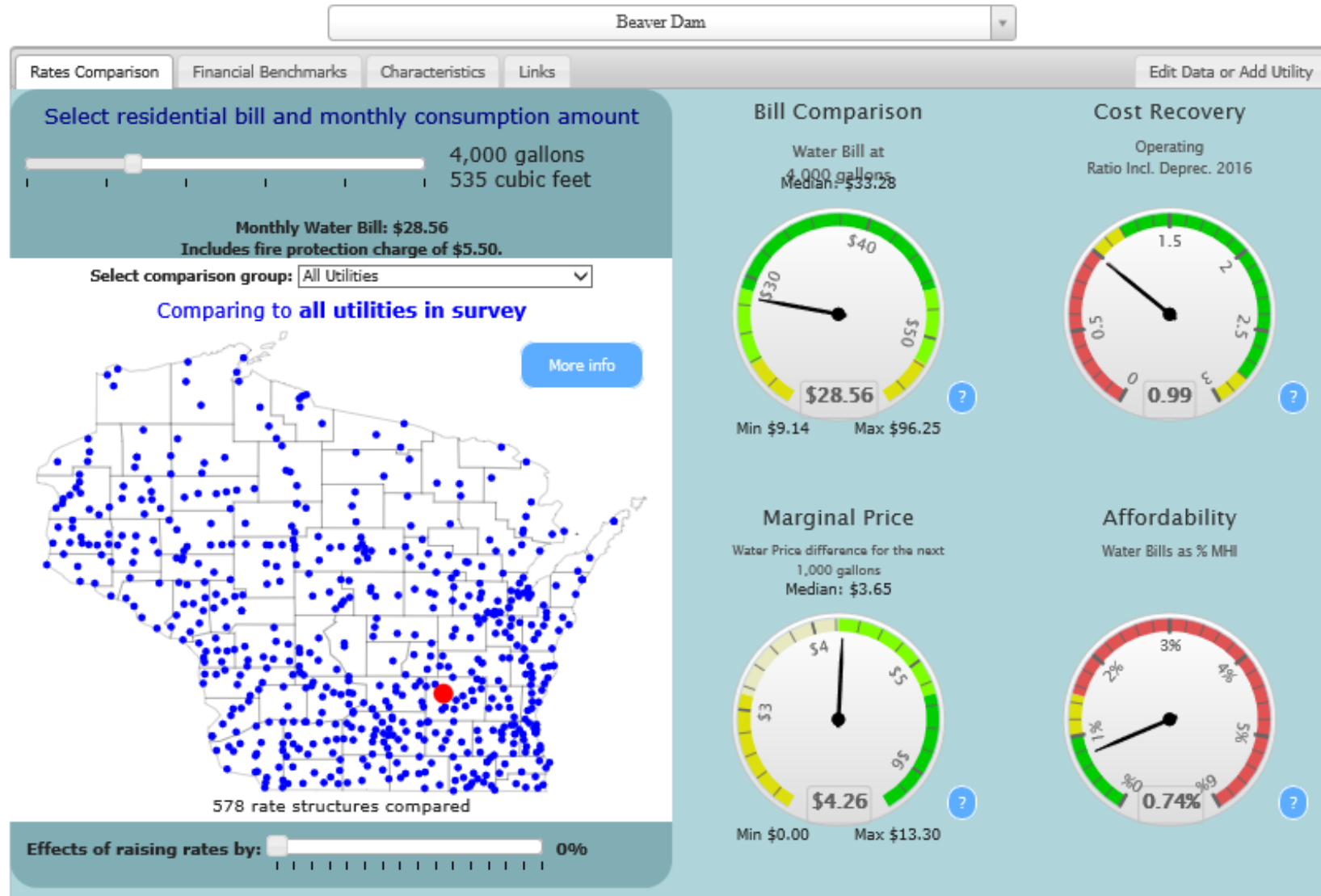
(Based on publicly available data as of May 2017)

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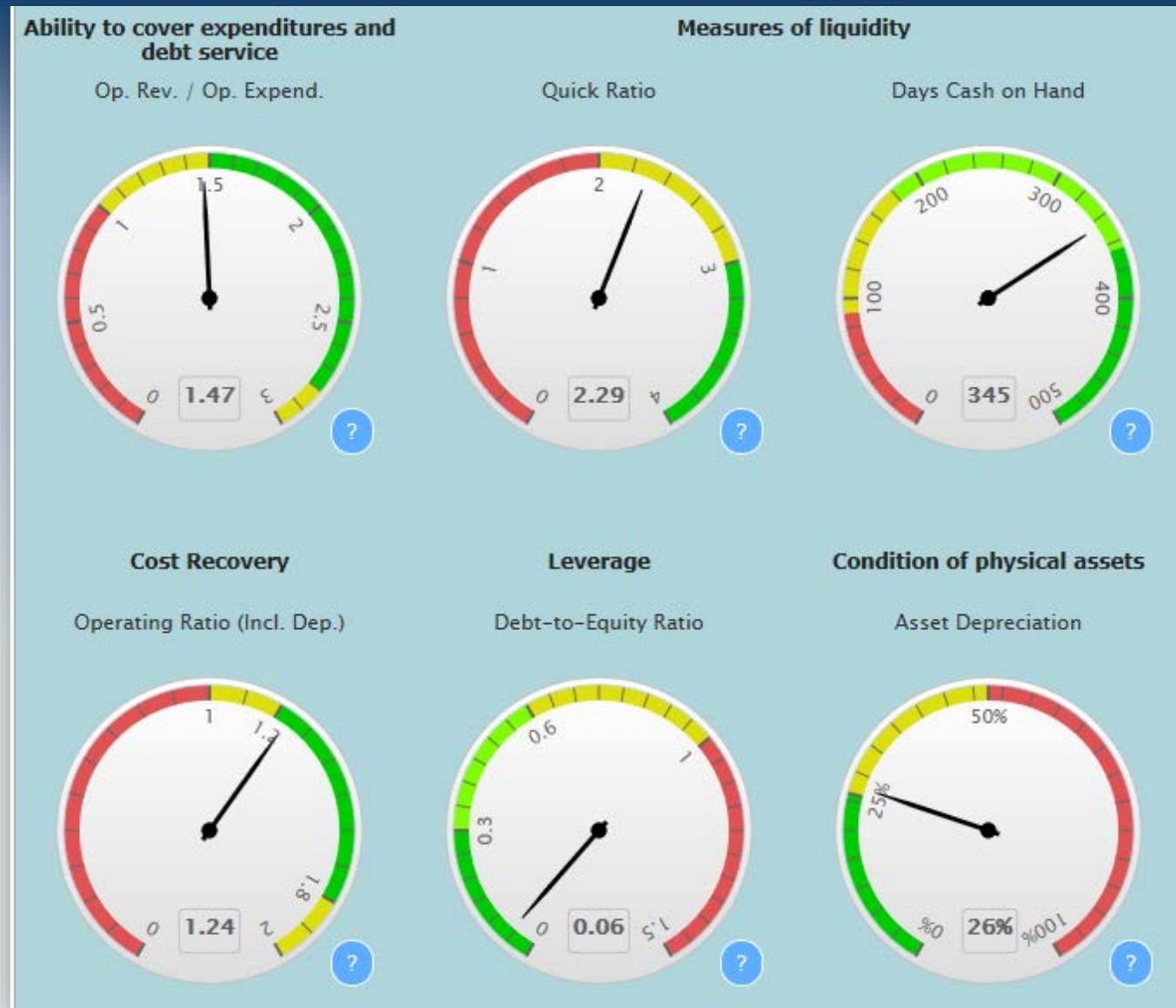
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Combined Water & Sewer Bill Survey at 13,000 Gallons per Quarter

College Park, MD (WSSC)	\$280.59
Bloomington, IN	\$187.64
West Lafayette, IN	\$186.00
New Brunswick, NJ	\$179.65
State College, PA	\$173.20
Champaign, IL	\$170.86
Columbus, OH	\$158.98
Iowa City, IA	\$150.49
Madison, WI	\$140.88
East Lansing, MI	\$140.12
Ann Arbor, MI	\$123.82
Minneapolis, MN	\$118.44
Evanston, IL	\$101.59
Lincoln, NE	\$81.17



Are Rates Sufficient to Cover My Utility's Costs?



Are Rates Sufficient to Cover My Utility's Costs?

Cost Recovery

Operating
Ratio Incl. Deprec. 2016



Operating Revenues: \$1,114,355

Operating Expenses: \$1,119,055

This operating ratio is a measure of whether the utility's rates were sufficient to cover the cost of operations and capital (in the form of depreciation, when included). This ratio divides operating revenues by operating expenses. In the case of some utilities that do not report depreciation in operating expenses, depreciation is excluded from the operating expenses, and thus the ratio only measures whether the utility's rates were sufficient to cover the cost of O&M. A ratio of less than 1.0 could be a sign of financial concern. In general, this ratio should be higher than 1.0 in order to accommodate future capital investments. Click on the tab labeled "Financial Benchmarks" to observe several indicators for a more holistic view of your utility's financial condition.

Water Utility Training

Resources and Training

Accounting

Customer-Related FAQs

Reports and Resources

Water Topics

Rate Setting

Drinking Water Infrastructure

Conservation and Efficiency

Resources and Training

Water Utility Financial Resiliency

Important Links

- Water Research Foundation Report: Defining a Resilient Business Model for Water Utilities
- Water Research Foundation Video: Financial Benchmarking for the Water Industry
- Water Research Foundation Video: New Business Models for the Water Industry
- EPA Water Infrastructure and Resiliency Finance Center

Water Loss Control

Asset Management

PSC Presentations

<https://psc.wi.gov/Pages/ForUtilities/Water/WaterUtilityTraining.aspx>

Rate Case Overview & the Application Process

Kathy Butzlaff, Audit Manager
Bureau of Water Utility Regulation & Analysis

Which Rate Case Is Right for Your Utility?

Simplified Rate Case

Inflationary increase

Quick and Simple Process

No hearing required

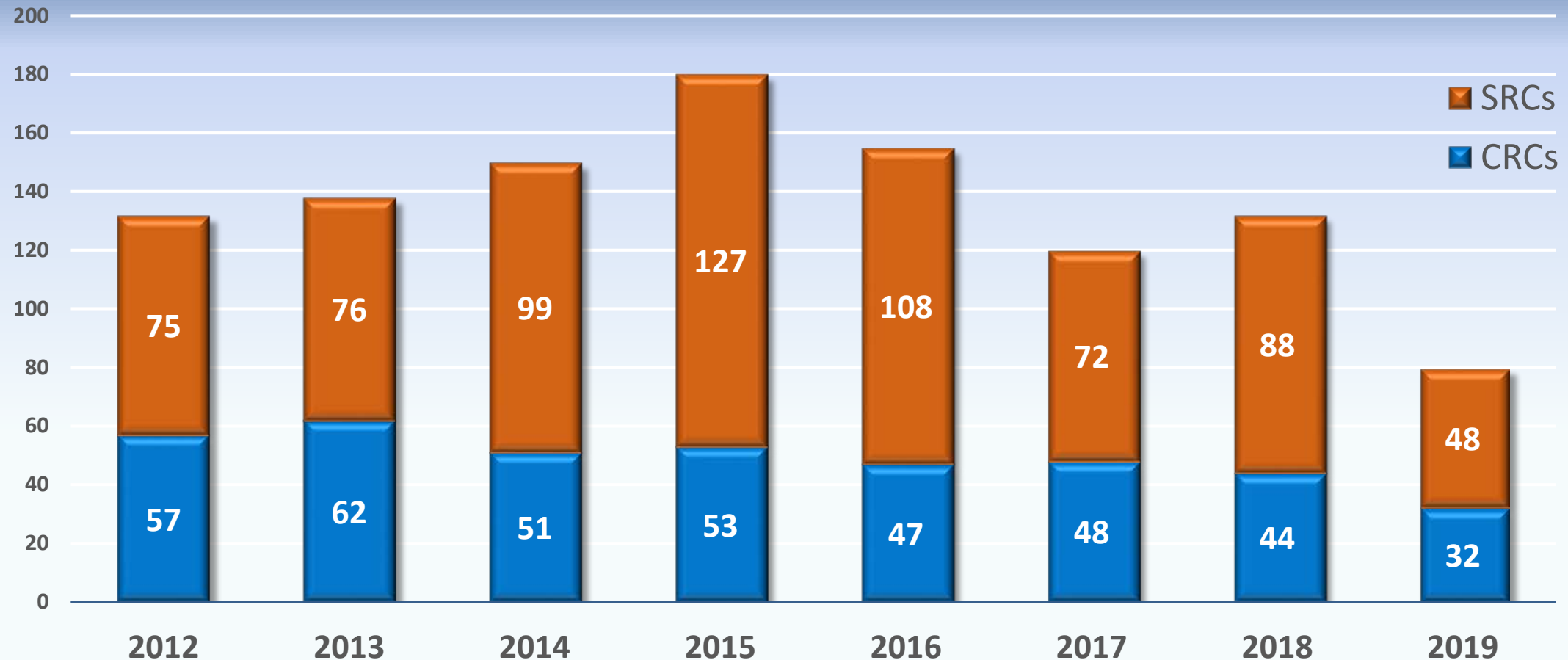
Conventional Rate Case

Any size increase

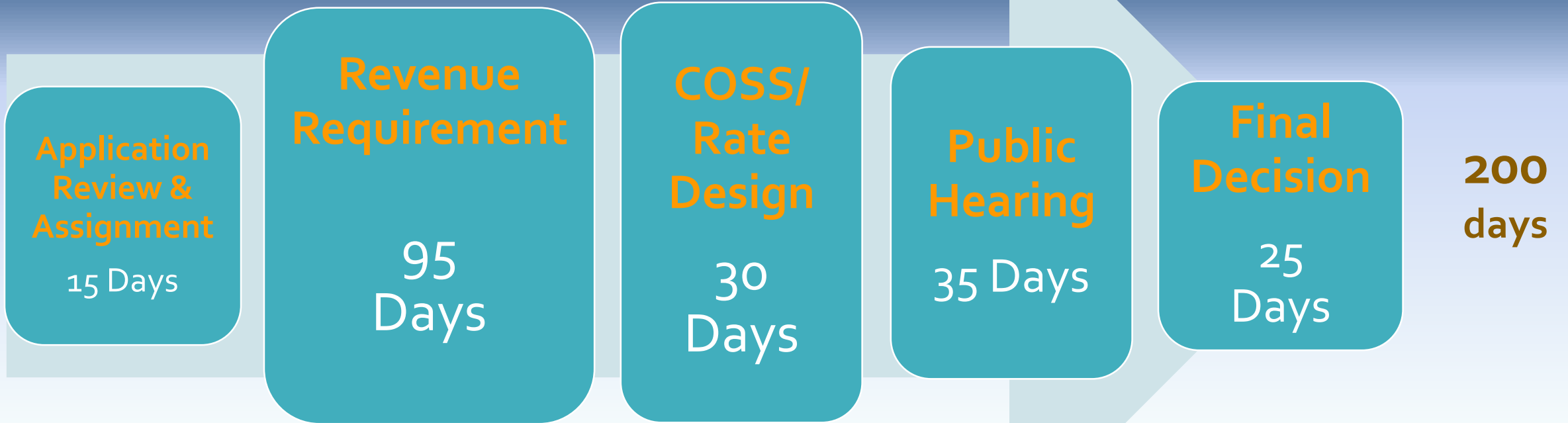
Longer Process

Public hearing required

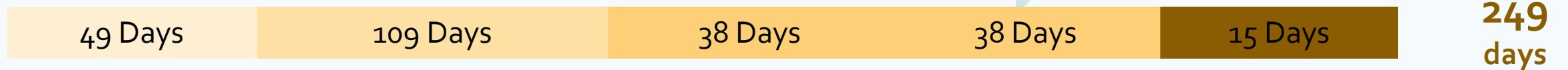
Number of Rate Cases – Orders Issued



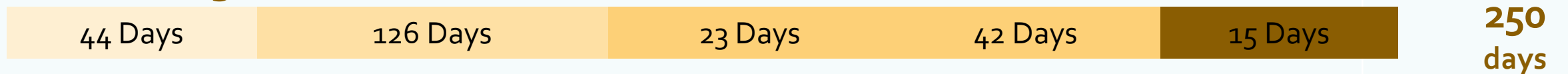
Rate Case Timing - Delegated



2018



2019 through June 30



Timing Takeaways

- The average case - 250 days
- If Utility delays are eliminated – 222 days

Percent of Cases in less than 200 days:

- 16% of all cases
- 44% of cases – utility delays

Rate Case Timing - Disputed



Common Reasons for Case Delays

- **Backlog (Case load)**
- **Incomplete Applications**
- **Increasing Complexity of Cases**
 - Impact fees
 - Unauthorized construction
 - Co-mingling of Water & Sewer revenues/expenses
 - Non-revenue Water
- **Delays/Incomplete Responses to PSC Data Requests**
- **Annual Report Issues**
- Full Staff Capacity
- Initial Application Screening
- Training, increasing awareness, ranking of applications
- Response deadlines, suspensions, application improvements
- Training, instructions

Utility Rate Case Tips

1. Obtain construction approvals prior to filing
2. Request a rate application at least 200 days in advance before you need the increase revenue
3. Be sure your application is complete:
 - a. Thoroughly complete Attachments 19 and 19a of the rate application
 - b. Resolve problems with customer billing data
 - c. Classify construction projects properly
 - d. Classify Contribution in Aid of Construction (CIAC) plant correctly in both test year and prior years
4. Answer PSC data requests promptly and completely
5. **Call if you have questions!**

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Credit Card Fees

Jan. 25, 2019 letter

- Allows recovery of processing fees in O&M expenses
- 5820-UR-115, 6680-TE-103, 6680-TG-108

Currently, two options:

1. Rate recovery: request in current/future applications
 - updated to provide information
2. No rate recovery: to do so immediately, use surplus revenue to cover processing costs
3. Tariff change without rate case is under consideration

Construction Case Overview & the Application Process

Mark Williams, Public Utility Engineer - Senior
Bureau of Water Utility Regulation & Analysis

Construction Authorizations

PSC reviews capital improvements to ensure sustainability of water utility while keeping rates just and reasonable

- Reviews financial aspects of project
- 3 primary criteria for evaluating projects
- Requires alternatives analysis
- Requires most cost-effective solution with lowest risk of future stranded assets
- Estimates rate impact



What Criteria Does PSC Use in Its Review?

Wis. Stat. § 196.49(3)(b): “The commission may refuse to certify a project if it appears that the completion of the project will do any of the following:

1. Substantially impair the efficiency of the service of the public utility.
2. Provide facilities unreasonably in excess of probable future requirements.
3. When placed in operation, add to the cost of service without proportionately increasing the value or available quantity of service....”

What Criteria Does PSC Use in Its Review?

Wis. Stat. § 196.49(3)(b): "The commission may not approve a project if it appears that the completion of the project will result in the following:

1. Substantially increased the cost of service without proportionately increasing the value or available quantity of service...."
 - Project should not result in:
 - Wasted energy, water, human, or financial resources
 - Unnecessary over-building / stranded assets
 - Rates that are too high for the benefits received

2. Provide a service that is not a public utility.
3. When providing service, add to the cost of service without proportionately increasing the value or available quantity of service...."

What Actions Require PSC Authorization?

1. New Utilities

- (PSC 184.03(1))

2. Expansion Acquisitions, Interconnections

- (PSC 184.03(2))

3. Utility Plant Construction

- (PSC 184.03(3))

Exempt if:
Project costs are less than \$364,000**
or 25% of a Utility's most recent Operating Revenues

Project Type Exemptions

PSC 184.03 (3) & (4)

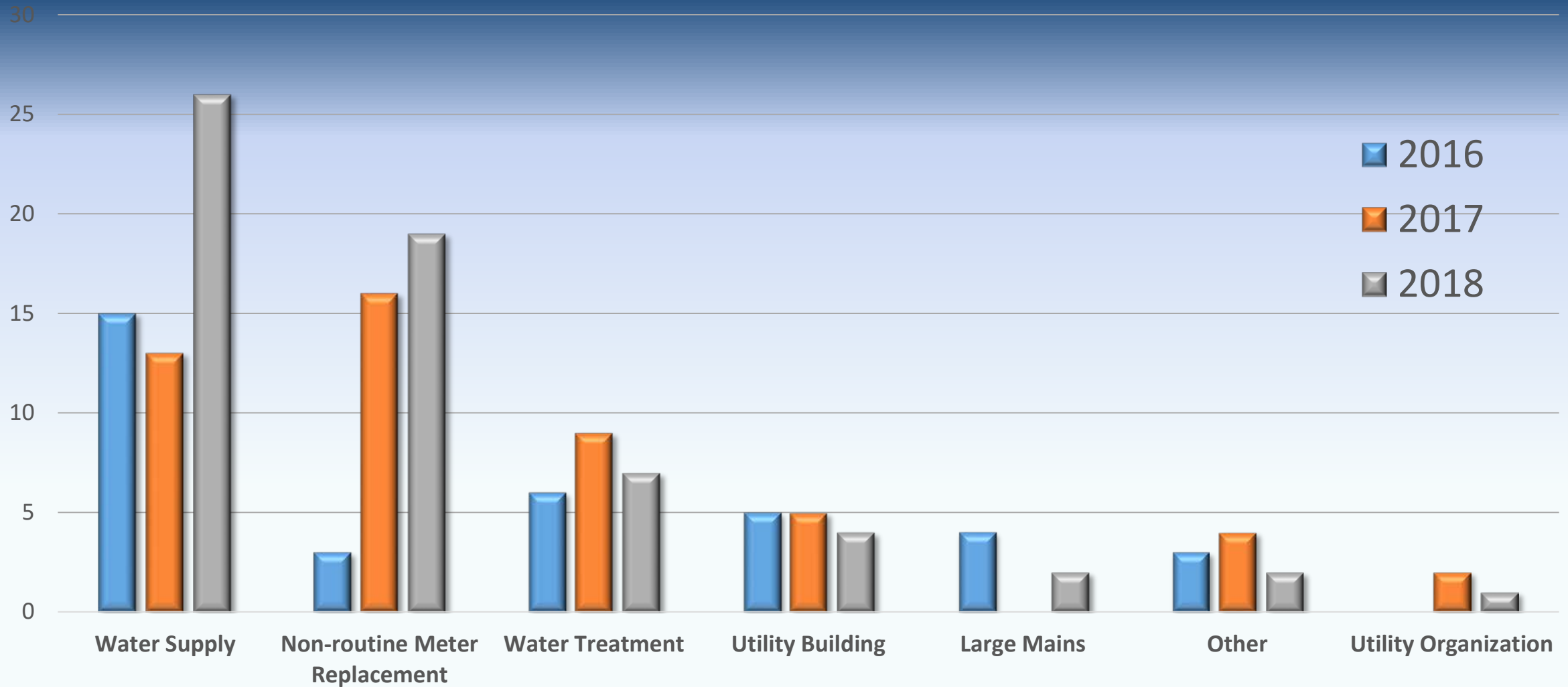
1. Water mains
(unless $\geq 8"$ and > 3 miles long)
2. Laterals, hydrants, or valves
3. Routine meter replacement
4. SCADA or other electronic monitoring and control systems
5. Replace/Repair existing pumps, motors, or associated equipment
6. Routine maintenance
7. Etc.

Final Decisions Issued Per Year

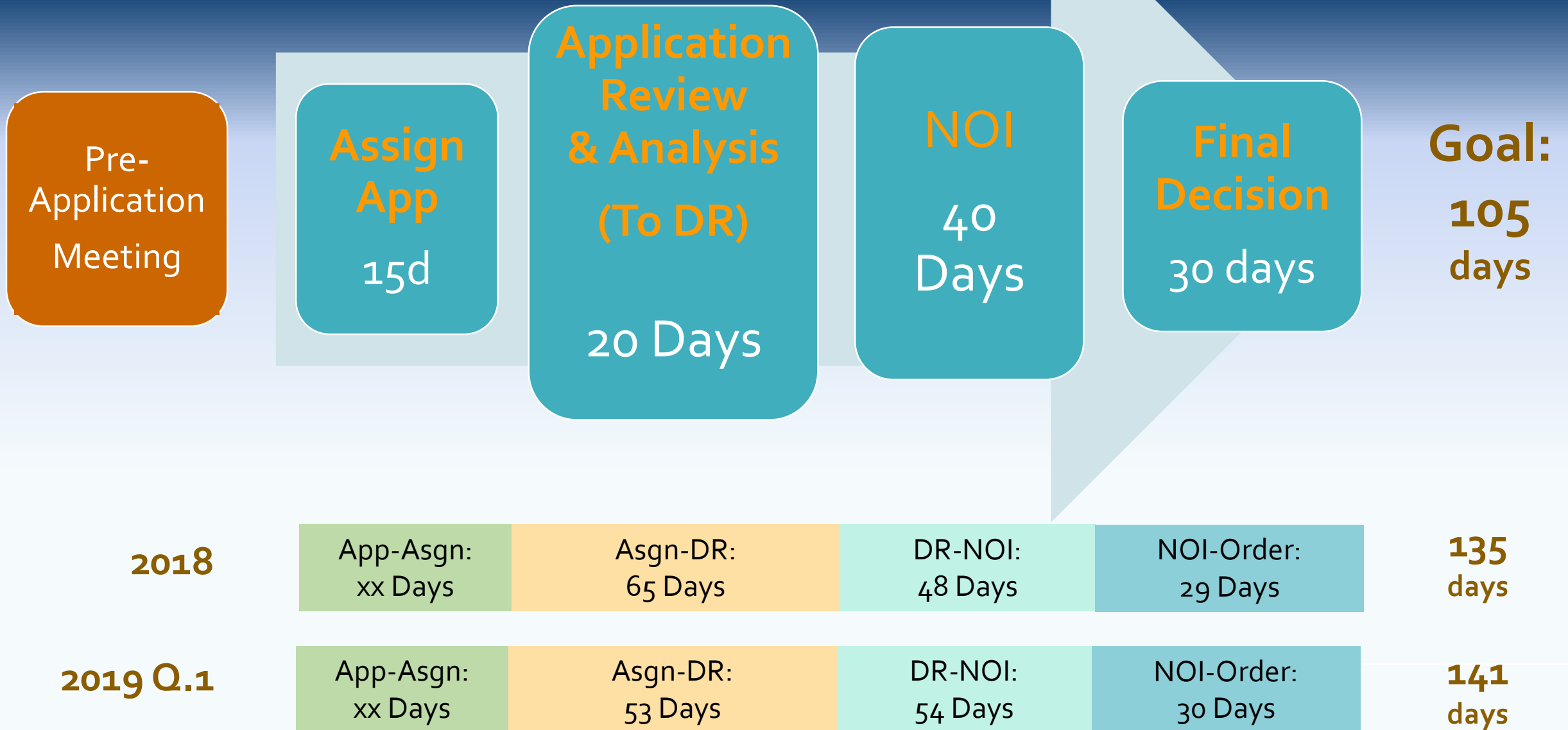
(BS, CW, SA, SI, WA, WB, WI, WM Dockets)



Construction Authorizations by Project Type



Construction Authorization Process



How to Apply

Provide the information described in the "General Application Checklist" and the appropriate "Supplemental Checklist" described in the links below. Upload the completed application and related documents (pdf format) to the PSC Electronic Records Filing (ERF) System using the utility's PSC identification number.


PSC General Application Checklist

 [General Application Checklist](#)

PSC Supplemental Checklist by Project Type

 [Establish New Utility](#)

 [Utility Expansion](#) (Acquisition and Interconnection)

 [Construction of Water Supply Facilities](#) (either new or replacement: wells, surface water intakes, storage facilities, and pumping stations)

 [Construction of Water Treatment Facilities](#)

 [Construction of Utility Buildings](#)

 [Non-routine Meter Replacement](#)

 [Large Mains](#) (equal or greater than 8-inches in diameter and 3 miles in length)

**When in doubt,
Call us!!
608 266-3766**

Tips For Construction Authorizations


1. Request joint PSC/DNR **pre-application meeting** early in process (ex: well site phase)
2. Make sure application is based on **updated information** (demand forecasts, major customer agreements, etc.)
3. Make sure application is complete
(**Use the Checklists!**)
4. Respond to **PSC data requests** promptly
5. If in doubt, **call us!**



Tips For Construction Authorizations

Common Shortcomings

1. Missing or incomplete alternative analysis
2. Missing or incomplete discussion of each the three statutory requirements
3. Incomplete breakdown of project costs by construction items, engineering, contingencies, USOA accounts
4. Old or non-current cost information
4. Old or non-current water use demand study or analysis
5. Missing service agreements
6. Questions, **call us!**



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Changes ahead

- **Order Point Tracker**

- No efficient way of tracking order points
- Reminders will be sent to Utility's UNF contacts 30 days in advance of due date
- Monthly reminders will be sent out following the due date
- Staff will be assigned to work with utilities

The Utility shall notify the Commission not more than 30 days after completion of the construction and report the final cost of the project.

The Utility shall submit a report to the Commission no later than 12 months from the date of this order...

The applicant shall file a conventional rate case no later than July 31, 2019.

Changes ahead

- **Online Construction Applications**

- Transitioning from static checklists to online application
- Ensure that the information staff needs for projects is provided
- Starting with AMR/AMI projects as way to streamline process

How to Apply

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[Large Mains](#) (equal or greater than 8-inches in diameter and 3 miles in length)

[Type 2 Water Construction DNR Impact Tables.zip](#)

[Type 2 Water Construction PSC Impact Tables.zip](#)

Rate Impacts from Construction

LouAnn Holzmann, Public Utility Auditor
Bureau of Water Utility Regulation & Analysis

How Do Construction Projects Affect the Affordability of Water Service?

- Water utilities are capital intensive enterprises
 - Up to 90% of costs may be fixed costs
 - Biggest impact to rates is new plant
- How to Mitigate the Rate Impact?
 - Delay spending on new plant if possible
 - Add customers or regionalize
 - Grants or principal forgiveness
 - Other contributions from customers
 - Good financing terms
 - Municipality could limit PILOT

Utility Revenue Requirement

- Operation and maintenance expenses
- Depreciation expense as a recovery of capital investment
- Taxes and tax equivalent (PILOT)
- Reasonable return on net investment rate base (ROR on NIRB)

Construction Applications - Rate Impact Estimates

Cost	Utility Financed Plant	Contributed Plant	Impact of Grant Money
O & M expenses	1-2%	1-2%	No Change
Depreciation expense	3-4%	0%	Lower
Taxes (PILOT)	2%	2%	No Change
ROR on rate base	5-7%	0%	Lower
TOTAL	13%	3%	Lower

Construction Applications - Rate Impact Estimates

- Estimated % increase in rates due to construction project

$$= \frac{(\mathbf{UP})(0.13) + (\mathbf{CP})(0.03)}{\mathbf{Annual Sales of Water}}$$

Annual Sales of Water

- Where:
- **UP** = Utility financed project costs in dollars (loans or funds)
- **CP** = Contributed financed project costs in dollars (grants and principal forgiveness)
- **Annual Sales of Water** = the utility's annual "total sales of water" in dollars from page W-1 of the utility's most recent PSC Annual Report

Example of Grant Impact - \$1,000,000 project

50% Grant	Utility Financed \$500,000	Grant Financed \$500,000	Annual Total @ 50% Grant
O&M	\$5,000	\$5,000	\$10,000
Depreciation	\$15,000	\$0	\$15,000
Taxes (PILOT)	\$10,000	\$10,000	\$20,000
ROR	\$35,000	\$0	\$35,000
Total	\$65,000	\$15,000	\$80,000

Example of Grant Impact:

Current average bill/qtr. \$100

	No Grant	50% Grant
Current Revenues	\$100,000	\$100,000
\$ Increase	\$130,000	\$80,000
% Increase	130%	80%
Average bill/qtr. (current)	\$100	\$100
Average bill/qtr. (new)	\$230	\$180
PFP Charge	Also increases	Increases less

Project Impact on Customer Rates

- Increases the annual revenue requirement
 - Operation and maintenance expenses
 - Depreciation expense
 - Taxes and tax equivalent (PILOT)
 - Reasonable return on net investment rate base (ROR on NIRB)
- SRC most likely not a large enough increase
- Utility needs to plan ahead for a conventional rate case

Coordinating and Planning

- PSC construction approvals
- Other construction approvals
- Rate increases
- Loan closings
- Principal forgiveness and grants



Project not for 2-3 Years?

- Plan ahead even more!
- Consider two (or more) rate increases
- One increase now to get utility income up to a good level
 - Cover current expenses
 - Save money towards project
 - Qualify for better financing terms
 - Stay off PSC Financial Outreach list
- Second increase to coincide with project construction

Roundtable Discussion and Wrap-Up

Future PSC/Industry Meetings

March: WRWA Technical Conference and Expo

May: Regulatory Affairs Seminar

??? PSC/Consultants Meeting

September: WIAWWA Annual Conference

October: PSC/Utility Meeting