Phased-In Rates (PIRs)

In the past, the Commission has approved the implementation of significant rate increases in phases in an effort to smooth out the impact of the rate increase and avoid rate shock to utility customers. In most cases, a significant rate increase is due to a major construction project, a change to a utility's method of recovery for collecting public fire protection (PFP) charges from municipal to direct, or infrequent rate cases. Commonly, the utility may have customer affordability concerns.

PIRs is a tool water utilities can use to address rate shock concerns for their customers when facing a large rate increase. However, it is important to note that PIRs ultimately delay the utility in achieving its required revenue requirement. While this is generally not preferred because of the utility's need to recover the full revenue requirement, the Commission sometimes permits it when utilities are faced with a significant increase. Please also review the Considerations for Managing Rate Increases and Options for Addressing Rate Shock Concerns in your rate case for additional ways to address significant rate increases.
Based on past Commission decisions, utilities should review the considerations and information below when applying for rate increases, which includes instructions on how to request PIRs.

Examples of past Commission rate decisions that authorized PIRs include:

- Theresa (5870-WR-102)
- Lomira (3180-WR-103)
- Sheboygan (5370-WR-111)
- Waukesha (6240-WR-111)
- Dresser (1680-PFP-100)

Eligibility for PIRs is case-dependent. The following are general considerations from dockets in which the Commission approved PIRs in the past. Note that the Commission makes its decisions based on the conditions specific to each application, and an applicant can make its case for situations outside of this list. While this document provides general information on PIRs, it is not legal advice or guidance regarding the process of requesting or approving PIRs. The Commission, in its discretion, reserves the right to grant, modify, or deny PIRs requests based on the information contained in the record of any docket before it.

Recommended Eligibility Considerations:

- Generally applicable for an overall rate increase of 50 percent or greater.
- PIRs are typically designed so that the required rate increase is split into two equal increases. This can be adjusted as requested, but such a request may not be feasible given required minimum level of revenues, should be supported by the applicant, and may need full Commission approval.
- Minimum time between phases is six months.
- Maximum time between phases is one year.
- Minimum level of revenues for Phase I is determined by the lowest adequate rate of return to meet all minimum debt obligations (1.50 times debt, 1.25 debt service coverage

requirements although may differ based on the type of debt issue). If the minimum level of revenues cannot be met by Phase I revenues, then PIRs may not be possible.

    - Typically, Phase I increase is at most 70 percent of the total increase (as required to meet debt service).

- Typically, the applicant has filed a conventional rate case (CRC) in the past ten years, or can demonstrate that it will file on a more regular basis in the future.
- Consider average customer bills as related to other utilities (PSC Rate Setting).
    - Quarterly Water Bill Comparison
    - Wisconsin Residential Water Rates Dashboard

Application Questions:

The following questions are for applicants requesting PIRs. The Commission has approved PIRs occasionally in specific situations. Note that a request for PIRs may require consideration from the full Commission.

The applicant should file answers to the items below separate from the application.

- Please provide the Commission's final decision date of the applicant's last CRC.
- Provide a detailed explanation of the reason(s) the applicant is requesting PIRs. Provide justification that customers will experience hardship as a result of the full increase.
- If for affordability concerns, provide the basis for affordability in the utility's service area.
- Review Considerations for Managing Rate Increases. Explain why these options are not reasonable for the applicant to mitigate the increase and avoid PIRs.
- PIRs are typically limited to two phases that are equally split into two. However, 1/3 or 2/3 may be appropriate. How many phases is the applicant requesting and what is the preferred distribution of the phases?
- Generally, PIRs should be implemented a minimum of six months after implementation of the first phase, and a maximum of 12 months from the first phase. What specific time period is the applicant requesting?
- Has the applicant had any conversations with utility customers or local decision makers about PIRs that explains the process and demonstrates the need for smoothing the rate increase?
- Has the applicant considered other options to address its concerns, such as changes to the rate design, establishing class-based rates, adjusting the rate block sizes, or adding uniform or inclining block rates for Residential customers?
- PIRs result in generating less revenue in the first phase than is recommended by standard ratemaking methodology. It is especially important that utilities review their need to adjust rates in the future. Explain the applicant's intention for filing an application for its next rate case. Provide an economic basis for its intention and any financial metrics that the utility would review to determine if a rate case is needed in the future.