WATER REGULATORY UPDATE

Jeffrey Ripp, Deputy Administrator – Gas and Energy
(Former Assistant Administrator – Water)
Public Service Commission of Wisconsin

Energy & Telecommunications Section Update
Madison, WI – February 7, 2014
Water, taken in moderation, cannot hurt anybody.
-Mark Twain
Public Water Utilities in Wisconsin

99% Municipal or Sanitary Districts

63% have fewer than 1,000 customers (Class D)

Total = 583 regulated water utilities
Trends & Characteristics of Water Utilities

- Only utility service that is ingested
- No practical substitute for consumers
- Increasing regulatory costs (public health)
- Fragmented industry
- Natural monopoly
- Rising costs
- Declining sales
- High capital intensity
- Long-lived assets (e.g., mains)
Residential Sales Volume per Customer (statewide average)
Comparative Capital Intensity
(Wisconsin Municipal Utilities)
Looming Infrastructure Challenges

• ASCE gives the United States a “D” for drinking water investment and funding.

• EPA estimates 20-year capital investment needs of almost $334.8 billion for the nation’s water systems.

• AWWA estimates the aggregate replacement value for the nation’s water main at $2.1 trillion if all pipes were to be replaced at once.

• Availability of federal funding to address these challenges in the future is uncertain (unlikely).
Main Replacement Deficit
Wisconsin Utilities

Based on estimated depreciation rate of 85 years. At this rate, it would take more than 181 years to replace all water main. At an average cost of $85/foot (2012), the five-year deficit is $294 million.
2012 Water Losses
Rising Costs → Higher Rates

Average Price per 1,000 Gallons (WI)

31% increase since 2006

2013 Statewide Average Residential Bill = $86.59/Quarter for 18,750 gallons
Water Utility Construction

• Wis. Admin. Code ch. PSC 184 requires approval prior to construction, acquisition, service extension, etc.

• Rule revised in August 2012 (docket 1-AC-232) to match cost exemption in Wis. Stat. s. 196.49(5g) & to provide categorical exemptions

• **Enforcement:** In at least 5 recent cases, PSC has referred engineering consultants to DSPS for failure to obtain prior authorization
  - Sheboygan (treatment), Fountain City (reservoir), South Wayne (treatment, meters), Westby (meters), Shell Lake (meters)
Changes to PSC 184

- Clarified construction approval process
  - Eliminates “acknowledgement letters”
  - Requires PSC action within 90 days of notice (w/o hearing)
  - Identifies information required to be submitted
  - Requires demand forecasting for new wells & supply

- Cost threshold for projects that are exempt from review
  - All projects below $250,000 or 25% of operating revenues (whichever is less)
  - Adjusted every two years based on Handi-Whitman Index
PSC 184 – Categorical Exemptions

• Installing or replacing mains within service area
• Routine installation or replacement of meters
• SCADA/remote monitoring and control systems
• Repairing or replacing pumps, motors, etc.
• Routine maintenance on utility buildings, facilities
• Replacing filtration media used for treatment

“Routine maintenance” means regular and necessary maintenance and is generally expensed, not capitalized
PSC 184 – Non-Exempt Projects

- Requires certificate of authority for:
  - Expansion of service area into a new municipality
  - Construction or acquisition of facilities from other systems
  - Establishment of municipal interconnections
  - Consolidation/combination of Utilities

- Project examples
  - New wells, treatment facilities
  - Elevated tanks, buildings, mains outside the service area
  - Non-routine meter replacement (AMI)
  - Capitalized replacement projects (e.g., replacing mass units of treatment plant)
2013 Wis. Act 20 & Public Fire Protection

• 2013-15 budget created Wis. Stat. s. 66.0602(2m)(b)

• Any new fee or a fee increase for covered services which were partly or wholly funded in 2013 by property tax levy must be offset by a reduction in the levy limit.
  • Covered services include: Garbage collection, Fire protection, Snow plowing, Street sweeping, Storm water management

• DOR considers utility public fire protection charges a “covered service”

• Utilities choose recovery method under Wis. Stat. s.196.03(3)(b), but PSC sets the rates
Public Fire Protection Recovery Method

Act 20 could affect more than half of municipalities with water utilities.
Water Service Rules (1-AC-233)

- Wis. Admin. Code ch. PSC 185

- Goal is to harmonize consumer-related sections and to simplify and clarify other requirements

- Complete review of all industry service rules (water, gas, electric)

- No timeline for public comment draft (est. summer/fall 2014)

- Accepting comments/suggestions on PSC website
Water Service Rules - continued

• Proposed changes to PSC 185 will include:
  
  • Consistency in billing, disconnection, deferred payment agreements & deposits with other industries
  
  • Review and eliminate unnecessary reporting or record-keeping requirements
  
  • Incorporate Schedule X-1 (utility operating rules) into PSC 185 where appropriate
  
  • Update and simplify meter testing requirements and accuracy standards
  
  • Cross-reference DNR, DSPS rules where appropriate (mains, laterals, pressure, etc.)
Water Loss Reporting & Control

• Water loss control rule (PSC 185) approved in August 2012 (effective for CY 2013)

• Requires annual water audit (AWWA method)

• Utilities that exceed standard required to submit corrective action plan

• In 2013: 131 utilities required to file plan

• **Effect on Metering:** Existing rule requires utilities with excessive water loss to test customer meters every ten years rather than replace every 20 years. In 2013, 44 utilities with 20 year replacement program exceeded standards
Small Water Systems
Challenges & Opportunities

- 365 “Class D” utilities
- High operating expenses per customer
- Significant capital investment needs – supply, treatment, disinfection, water main replacement
- Lack of technical, managerial, financial capacity
- This means higher water rates
Initiatives to Assist Small Systems

- **Financial Viability Review** – Benchmarking to evaluate financial health of small systems; require 10-15 utilities to file a rate case each year

- **Compliance Assurance** – On/off site audits to ensure annual reporting & billing compliance

- **Consolidation & Regionalization** – PSC investigating policies and opportunities for increased cooperation, consolidation & regionalization

- Closer scrutiny on proposed capital expenditures (CA’s)
Questions?

Jeffrey Ripp
Deputy Administrator
Gas & Energy
(608) 267-9813
Jeffrey.Ripp@Wisconsin.Gov

Jeff Stone
Administrator
Water & Consumer Affairs
(608) 267-7829
Jeff.Stone@Wisconsin.Gov