

# PSC WATER UPDATE

Lawrie J. Kobza

608.283.1788

lkobza@boardmanclark.com



1 S. Pinckney St., Fourth Floor  
PO Box 927  
Madison, WI 53701  
boardmanclark.com

## Wisconsin Water Utilities

- 583 public water utilities in Wisconsin
  - 78 are Class AB utilities serving 4,000 or more customers
  - 140 are Class C utilities serving from 1,000 to 4,000 customers
  - 365 are Class D utilities serving fewer than 1,000 customers
- 6 are private or investor-owned systems
  - Rest are municipally owned



## PSC Regulation of Water Utilities

- PSC jurisdiction to “supervise and regulate every public utility in this state and to do all things necessary and convenient to its jurisdiction.” Sec. 196.02(1)
- Water utility falls within the definition of a “public utility” under Sec. 196.01(5)(a).
- PSC has “original and concurrent jurisdiction with municipalities” to regulate service of public utilities within a municipality. Sec. 196.58(5)

3



## Infrastructure Maintenance

- PSC reviews utility’s ongoing investment in facility maintenance as part of rate case
- Milwaukee Water Rate Case, PSC Docket 3270-WR-108
  - Issue: “Is MWW water main replacement program reasonable?”
  - Issue raised and pursued by PSC Staff

4



## Milwaukee Main Replacements

- MWW proposal
  - 15 miles of main replacements per year
  - Cost approx. \$1 Million/mile of main
  - Use cash financing
- PSC Staff
  - Rate of proposed main replacement not sufficient
  - PSC could require more detailed study
  - PSC could authorize a lower ROR, or make a certain ROR contingent on meeting certain requirements

5



## PSC Main Replacement Decision

- Milwaukee must replace 15 miles/yr in 2015-2017; 18 miles in 2018-2019; 20 miles in 2020
- MWW must hire an independent consultant to do a main replacement study
- Every 6 months, MWW must report to the PSC regarding the condition of MWW's mains
- MWW must report to the PSC regarding progress of main replacement program

6



## Going Forward: PSC Review of Infrastructure Maintenance

- PSC may review a utility's plan for sufficient ongoing investment in facility maintenance
  - Reporting details on water main inventory (feet, size, age, materials) to be required as part of annual report
  - PSC may review utility's ongoing investment in facility maintenance as part of rate case; expect questions
  - Utility needs to be prepared to demonstrate utility's capital replacement program is reasonable

7



## Construction of Facilities

- PSC approval necessary: Sec. 196.49(3)
- Standards: May deny CPCN if:
  - Project will substantially impair the efficiency of the utility's service
  - Project will provide facilities unreasonably in excess of the probable future requirements
  - Project when in operation, will add to the cost of service without proportionately increasing the value or available quantity of service

8



## New Facilities & Large Customers

- Concern:
  - Financial capacity/ability to repay loan where utility sales dependent on a large customer
  - Increase in water rates could drive industry to use less or look for alternative source
  - Impact if industry closes (Brokaw as an example)
- How does this fit with CPCN criteria?

9



## Village of Lena

- Water service to 249 customers
- 90% of water used by Saputo cheese plant
- Radium removal treatment system required at cost of \$3.7 million (\$2.7M loan after grants)
- PSC construction approval sought
- Concern: Village is bearing a disproportionate share of the financial risk for the project without a financial guarantee that its largest customer would stay on the system
  - If Saputo closed, rates would increase by 545%

10



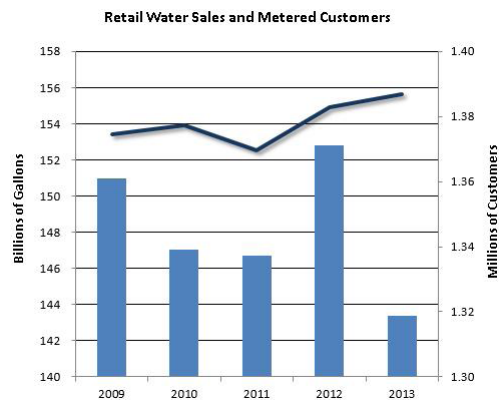
## CPCN for Village of Lena

- While “possible” that Saputo could close, record does not demonstrate that it is “probable” at this time
- PSC says since Saputo is an existing water customer, it does not have the authority to compel Saputo to negotiate a water use agreement with Lena
- PSC grants CPCN for project on a 2-1 vote
  - PSC Docket: 3120-CW-101
- Water supply agreement subsequently entered into by Lena and Saputo
  - Saputo to pay minimum quarterly loan payment of 90%

11



## Changing Water Demand Declining Sales



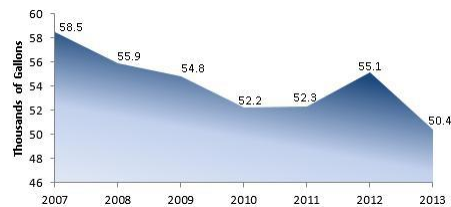
Source: PSC's 2014 Wisconsin Water Fact Sheet

12



## Declining Individual Water Use

Residential Service Volume per Customer  
(statewide average)



Source: PSC's 2014 Wisconsin Water Fact Sheet

13



## Declining Variability in Use?

- Comparison of average use to peak use
- How to know?
  - Water utilities usually don't have metered max day and max hour information for its customers
  - Traditionally use industry standards or what was approved in last rate case

14



## Demand Ratios in WI

10 Largest WI Cities	Maximum Day Ratios (MD:AD)				Maximum Hour Ratios (MH:AD)				PSC Docket No.
	Resid.	Comm.	Indust.	Public	Resid.	Comm.	Indust.	Public	
Milwaukee	2.25	2.10	1.60	2.05	5.21	5.15	2.12	4.99	3720-WR-108
Madison	2.40	2.20	2.00	2.20	4.40	4.00	3.00	4.00	3820-WR-112
Green Bay	3.10	2.60	1.80	2.60	5.50	4.50	2.50	4.50	2350-WR-109
Kenosha	2.75	2.25	1.50	2.25	3.75	3.00	1.75	3.00	2820-WR-106
Racine	2.25	2.00	1.50	1.90	3.75	3.00	2.00	2.50	4900-WR-111
Appleton	3.00	2.75	1.80	2.75	5.00	4.25	2.50	4.25	190-WR-112
Waukesha	2.50	2.25	2.00	2.25	4.50	4.00	3.00	4.00	6240-WR-107
Oshkosh	3.25	2.50	2.25	2.50	6.00	4.25	3.50	4.25	4480-WR-109
Eau Claire	3.15	2.75	1.90	2.75	5.30	4.40	2.75	5.40	1740-WR-111
Janesville	3.00	2.50	2.00	2.50	5.00	4.50	3.50	4.50	2740-WR-108



## AMI Meters & Availability of Demand Information

- City of Madison installation of AMI meters
- Availability of daily and hour information for customers
- Ability to document changes in customer usage
- Ability to calculate demand ratios for customer classes





## Madison's Proposed Changes in Retail Demand Ratios

Customer Class	Max Day Ratio - 2011	Max Day Ratio - Proposed	Max Hour Ratio - 2011	Max Hour Ratio - Proposed
Residential	2.40	1.77	4.40	3.20
Multi-Family	2.20	1.66	4.00	3.24
Commercial	2.20	1.82	4.00	2.77
Industrial	2.00	1.73	3.00	2.93
Public Authority	2.20	2.38	4.00	5.28
Fitchburg	2.20	3.50	4.00	5.43
Maple Bluff	2.20	2.29	4.00	4.66
Shorewood Hills	2.20	1.32	4.00	2.32
Waunona SD	2.20	1.43	4.00	2.40

17



## Going Forward: Impact of AMI Metering

- AMI data may result in changes in demand ratios which would result in changes in the allocation of costs among customer classes
- Residential classes may see lower rate increases
- Public authority class may see higher rate increases
- May also see more customer classes created for water utilities

18



## Retail Rates & Unique Customers

- PSC Docket 9300-SI-115, Sewer Complaint of Fox River Fiber Company
- Principle of cost averaging is unreasonable when developing rates for unique customers who utilize dedicated infrastructure and whose use can be readily measured
- Reasonable to develop individualized rate for such customers
- Looking forward: Expect more requests for individualized rates

19



## Wholesale Customers and Differential ROR in WI

- 28 wholesale suppliers in WI
- In the past, the PSC has approved differential RORs for retail and wholesale customers for 3 utilities
  - Racine, Oak Creek, Milwaukee
  - Kenosha's request for a differential ROR was denied
  - In Milwaukee's 2014 rate case, its request for a 1% differential ROR was denied

20



## PSC Rationale in Milwaukee Case

- Wholesale customers did not pose any additional risk to MWW that would justify a differential ROR
- Excess capacity not caused by wholesale customers
- Wholesale customers help pay for excess capacity
- In the future, full Commission must consider any case where a differential ROR is requested
- 2-1 Decision (Commissioner Callisto dissents)
- Looking forward
  - Supplier has a high burden to get Commission to approve differential ROR

21



## Winter Operations & Protection of Utility Facilities

- Last winter exceptionally cold and unprecedented number of frozen water laterals
- Water laterals run from the street to the customer's property. Utility owns up to the curb stop, the customer owns the lateral into the home
- Some utilities request customers to run water to keep the water from freezing in the lateral
- If customer fails or refuses to run water and the lateral freezes, what happens?

22



## Winter Operations & Protection of Utility Facilities

- Utility cannot require a customer to run a stream of water “to protect utility-owned property from damage”
  - PSC Docket 3480-CC-152312
- If the water froze in the utility owned portion of the lateral, the utility is responsible for the cost of thawing utility owned facilities, even if the utility issued a run water order and the customer failed to comply

23



## Questions?

- Lawrie Kobza, Boardman & Clark
  - 608.283.1723
  - [lkobza@boardmanclark.com](mailto:lkobza@boardmanclark.com)

24

