PSC WATER UPDATE

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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)

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
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

PSC Main Replacement Decision

- 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
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

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
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?

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%
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%

Changing Water Demand
Declining Sales

Source: PSC’s 2014 Wisconsin Water Fact Sheet
Declining Individual Water Use

![Graph showing Residential Service Volume per Customer (statewide average) from 2007 to 2013.](source: PSC’s 2014 Wisconsin Water Fact Sheet)

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
Demand Ratios in WI

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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

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<th>Customer Class</th>
<th>Max Day Ratio - 2011</th>
<th>Max Day Ratio - Proposed</th>
<th>Max Hour Ratio - 2011</th>
<th>Max Hour Ratio - Proposed</th>
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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
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

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
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

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?
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

Questions?

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