



Department of Public Works  
Milwaukee Water Works  
April 16, 2008

Jeffrey J. Mantes  
Commissioner of Public Works

James P. Purko  
Director of Operations

Carrie M. Lewis  
Superintendent of Water Works

Michael Murphy  
Alderman, 10<sup>th</sup> District  
City Hall, Room 205

Dear Alderman Murphy:

In your letter of April 11th, you requested that I provide your office with information on the financial impact on Milwaukee ratepayers of revenue from new water sales to suburban communities.

The answer to this question is not as straightforward as one might expect. To assist me in giving you as complete an answer as possible, I consulted with David Sheard, Public Utility Rate Analyst in the Division of Water of the Wisconsin Public Service Commission. What follows is a recap of our conversation.

The Public Service Commission sets rates that recover the actual costs for the utility to provide service plus a requested rate of return. The total of these amounts are distributed equitably to the various classes or types of service (e.g., residential, commercial, industrial, wholesale). Because these are complex calculations, the only way to quantify the dollar value to Milwaukee customers of additional revenue would be to do two complete rate case analyses, one including the revenues from and costs of providing service to additional suburbs, and one without those costs or revenues, and comparing the two results. This would be a long and costly undertaking for both Water Works and Public Service Commission staff.

While I cannot provide you a specific dollar value for each Milwaukee taxpayer, the positive financial impact of present and future suburban wholesale customers cannot be understated or overlooked. Revenue from these sources directly lessens City of Milwaukee residents' rate burden by spreading the utility's costs over a wider base. Non-Milwaukee ratepayers contribute to our payment in lieu of taxes (PILOT), our payments to the general fund for services purchased from other City departments, the utility's fixed costs, debt service, and our Capital Improvement Program. The positive impact of an additional \$4.3 million in revenue would help stabilize our modest rate of return now and into the future.

I hope that this information is helpful.

Very truly yours,

Carrie M. Lewis, Superintendent  
Milwaukee Water Works

CL:sp

cc: Common Council President Willie Hines, Jr., Mayor Tom Barrett

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Member, American Water Works Association, American Public Works Association  
American Society of Civil Engineers, and Automatic Meter Reading Association.

**Silletti, Leslie**

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**From:** Lewis, Carrie  
**Sent:** Friday, April 25, 2008 12:18 PM  
**To:** Murphy, Michael  
**Cc:** Silletti, Leslie; Nicolini, Mark; Curley, Patrick; Smith, Earl; Daniels, Laura  
**Subject:** FW: info you requested

Alderman Murphy,

Following these comments and explanations is, per your request, a copy of the e-mail I sent to you in October 2007 regarding the impact of additional revenue from New Berlin on the City of Milwaukee average residential customer.

Prior to my recent conversation with the PSC, MWW used two different procedures to estimate what the financial benefit would be to the average residential customer in Milwaukee of additional revenue to MWW.

In my recent conversation, the PSC discouraged the use of these procedures, and told me that the only way to accurately calculate the savings to Milwaukee residential customers would be to perform two complete rate case analyses, one with the revenues and associated costs accounted for, and the other without. That is because the rate model used by the PSC is very complex.

Notwithstanding this advice from the PSC, I am presenting for your information the two procedures we have used in the past when you asked these questions, and the dollar amounts that each of those procedures generates in answer to your questions.

In the first procedure, we totalled the incremental annual cost for electricity for pumping the extra water to the suburban customer, plus the incremental annual cost of water treatment chemicals used in treating the extra water. (This does not take into account other costs, such as extra maintenance, that are more difficult to quantify.) We subtracted these costs from the annual revenue estimated to be received from the suburban customer and divided the remainder by 129,869 residential accounts.

In the second procedure, we took the additional annual revenue generated by our recent rate increase, deducted the additional revenue estimated to be generated by the suburban community, estimated what smaller rate increase would have then generated the required revenue for the Water Works, reduced the rate increase by that amount, and then calculated how that would have impacted the average residential account.

For New Berlin, the first procedure projects that additional revenue of \$500,000 would save each residential account \$2.98 per year, every year. The second procedure projects a savings of \$1.50 per year, every year.

For Waukesha, using the figure of additional revenue of \$4.3 million, the first procedure projects a savings of \$24.88 per year, every year for each residential account. The second procedure projects that we would not have needed the 6% rate increase at all, thus saving each residential account \$7.88 per year.

You can see that these two approaches, both quite logically based, yield very different results, thus

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supporting the PSC's advice.

The three individuals from the PSC with whom I consulted in my recent conversation were:

David Prochaska, Water Utility Rate Analyst (608-266-5739)  
David Sheard, Water Utility Rate Analyst (608-266-5739), and  
Vishwa Kashyap, Public Service Engineer (608-266-2029).

I am available to answer any additional questions you may have.

Respectfully,

Carrie Lewis, Superintendent  
Milwaukee Water Works

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**From:** Lewis, Carrie  
**Sent:** Mon 10/29/2007 1:00 PM  
**To:** Murphy, Michael  
**Subject:** New Berlin info you requested

Ald. Murphy,

I and MWW financial folks have tried very hard to answer your question about the dollar value that will directly benefit Milwaukee water customers should additional water be sold to New Berlin.

This is not an easy question to answer.

Qualitatively, the benefits are that in the short run, the additional revenue will improve cash flow. In the longer run, the revenue will lessen the impact of our future rate increases by spreading that increase over a larger customer base.

(At our next rate increase we will likely be considering the impact of replacing the 160,000+ automatic meter reading devices before the batteries in the electronics reach the end of their expected life; this will be a very expensive project, probably in excess of \$10 million spread over a few years.)

How much would the additional revenue offset future rate increases? We estimate that approximately \$500,000 of additional revenue per year would be generated by selling water to the middle third of New Berlin. Our June 2007 rate increase of 6% is projected to bring in an additional \$4 million per year. \$500,000 represents 0.75% of the rate increase, so we could have had a 5.25% increase and still brought in the necessary \$4 million. The average City of Milwaukee residential account would have saved approximately \$1.50 per year, every year, going forward. (Commercial and industrial accounts would have saved proportionately more, because their water usage is greater and their bills are larger.)

While this is a very small number on an individual account basis, half a million dollars per year, every year, of additional revenue is *not* a small number for the financial sustainability and competitiveness of the water utility.

Please keep in mind that these numbers are very rough and there are many different ways to approach the calculations to answer the question.

Carrie

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