

LRB – FISCAL REVIEW SECTION ANALYSIS

UTILITIES AND LICENSE COMMITTEE

ITEM 3, FILE 011572

APRIL 16, 2002

ANGELYN WARD

File #011572 is a resolution implementing the order issued by the Wisconsin Public Service Commission to adjust water rates by the Milwaukee Water Works.

Background and Discussion

1. This resolution authorizes the Water Works to implement the increased water rates contained in an order docket 3720-WR-104 issued by the Public Service Commission of Wisconsin (PSC), February 15, 2002.
2. The PSC is an independent agency responsible for regulating Wisconsin's public utilities and ensuring that utility services are provided to customers at prices reasonable to both ratepayers and utility owners. The structure and duties of the PSC are prescribed pursuant to s.15.79 and ch. 196, Wis. Stats.

The PSC sets utility rates and determines levels for adequate and safe service. More than 1,400 utilities are under the agency's jurisdiction. Utilities must obtain PSC approval before instituting new rates. In application for a rate increase, the public utility applies for a rate of return to meet its obligations. The PSC then establishes the overall rate of return based on revenue need by the utility.

The PSC staff indicated that an authorized rate increase by the PSC cannot be revised or partially implemented. After authorization, the PSC must be notified in writing of the effective date of the adjustment. This allows adequate time for the wholesale distributors to inform their customers. When a utility seeks to phase in a rate adjustment, this must also be explained to the PSC within the application of rate adjustment.

3. The 2001 City Budget included a **3% rate increase** under the PSC simplified rate case program, which allows utilities to keep pace with **inflationary pressures** from the previous year. This includes an allowable percentage based on the prior year's increase in the U.S. consumer index for all urban consumers. In June 2001, a **3.4% rate increase** was phased in under the simplified rate case program and became fully applicable to all water sales by August 2001, potentially adding \$900,000 to the Water Works' revenue for 2001. It is estimated that the June 2001 3.4% rate increase will add \$2.1 million to the Water Works' revenue for 2002.
4. Also, in June 2001 the Water Works requested Common Council authorization to file for a water rate adjustment. The department indicated that the rate of return had decreased for 2000 and 2001. The rate of return is based on net operating income compared to the Water Works' investment rate base. For 2000 the rate of return was 3.98% and for 2001 the rate of return was 3.66%.

	<u>2000</u>	<u>2001</u>
Utility Plant in Service	\$459,374,170	\$466,668,127
Materials and Supplies	2,180,317	2,612,570
Accumulated Depreciation	(117,975,775)	(126,309,205)
Contribution in Aid of Construction	<u>(71,994,889)</u>	<u>(72,583,345)</u>
Rate Base	\$271,583,823	\$270,388,147
Net Operating Income	\$ 10,805,155	\$9,887,752
Rate of Return	3.98%	3.66%

5. Under File 010234, the Common Council directed the Water Works to apply for a water rate increase with the PSC, June 19, 2001. In August 2001, an application for full rate review was submitted to the PSC. A comprehensive rate review by the PSC was performed to establish rates based upon the cost of service. Included in the review were the suburban wholesale accounts, peak demand and fire protection factors.
6. Per state statutes, the Water Works is granted permission to apply for the maximum 7.5% rate of return. After analysis, the department requested a return on net investment of 6.5%.
7. The PSC review stated the Water Work's capital improvement is funded estimated at 78.29% municipal equity and 21.71% long-term debt. The composite cost of debt is 4.74%. A return on the rate base of 6.5% will provide 6.67% return on municipal equity and adequate times interest coverage.
8. The water service rates authorized in the PSC decision will result in an estimated net operating income of approximately \$17,592,109 which provides a 6.5% return on the water utility net investment rate base of \$270,647,838. The authorized rate increase is estimated at \$6,361,972 in revenue if water consumption remains the same.
9. **The PSC decision results in a general 11% water rate increase.** In the City of Milwaukee, for the average single family home, the quarterly bill will increase from \$37.73 at the old rate to \$41.59, **an increase of \$3.86 per quarter of \$15.44 per year.** The average residential (residential includes 1 to 4 unit dwellings) customer's quarterly bill will increase from \$45.93 at the old rate to \$50.82 at the new rate, **an increase of \$4.89 per quarter or \$19.56 per year.**
10. The new authorized water rates were to be effective as of March 1, 2002. Monthly billing dates for suburban resale and business customers for consumption were March 1, 2002. Quarterly billing to retail customers were to be prorated. The proposed schedule was:

District III, consumption January 1 through March 31, 2002, apply 1/3 of rate increase.
Burleigh Street north to City of Mequon.

District 1, consumption February 1 through April 30, 2002, apply 2/3 of rate increase.
Burleigh Street south to Greenfield Avenue.

District II, consumption March 1, through May 31, 2002, apply full rate increase.
Greenfield Avenue south to Cities of Franklin/Oak Creek.

By June 1, 2002, all customers were scheduled to pay the full rate increase.

11. The increased water rate does not affect:
 - **Sewer Treatment Fee**, billed on behalf of the Milwaukee Metropolitan Sewage District and based on water consumption.
 - **City Local Sewer Maintenance Fee**, based on water consumption.
 - **Solid Waste Fee**, based on per residential unit per quarter.

Historical Information Related To Water Rate Adjustments

1. The Milwaukee Water Works is a self-financed business enterprise of the City of Milwaukee. The department collects revenues to finance its operations. The following is historical information from 1990 through 2002 includes data from Water Works Annual Reports and the department:

Year	Operating Revenues	Operating Expenses	PILOT	Debt Service	Capital Improvements	Cap. Imp. Borrowed
1990	\$40,961,383	\$36,645,965	\$6,106,517	-	\$ 8,542,188	-
1991	\$48,531,643	\$38,761,446	\$6,290,061	-	\$ 8,677,913	-
1992	\$49,513,081	\$40,674,543	\$6,723,937	-	\$10,905,896	-
1993	\$47,710,182	\$43,038,261	\$6,728,428	-	\$ 9,718,215	-
1994	\$49,324,955	\$47,133,203	\$6,774,176	-	\$ 9,322,632	-
1995	\$56,364,721	\$43,795,263	\$6,445,893	-	\$ 9,865,000	\$ 8,523,554
1996	\$55,479,506	\$45,541,761	\$6,774,176	\$1,981,290	\$10,963,500	\$14,543,993
1997	\$53,273,888	\$47,472,203	\$6,774,176	\$4,552,997	\$ 8,995,000	\$20,328,381
1998	\$54,291,545	\$49,110,450	\$6,878,805	\$6,224,995	\$ 7,209,200	\$36,696,433
1999	\$55,142,771	\$49,905,081	\$7,010,110	\$7,904,706	\$10,084,649	\$ 4,302,685
2000	\$62,056,197	\$51,002,574	\$8,255,186	\$8,840,280	\$ 8,496,700	-
2001	\$61,868,672	\$51,980,920	\$8,040,000	\$8,656,102	\$14,275,000	-
2002	\$63,923,561*	\$51,122,178	\$8,570,000	\$8,542,157	\$15,050,000	-

* Authorized in the 2002 rate increase

Operating Revenues – Revenue received for water sales, fire protection service and miscellaneous services

Operating Expenses – Costs for administrative and general, billing and collection, transmission and distribution, water pumping and treatment expenses

PILOT - Payments in lieu of property taxes to City of Milwaukee

Debt Service – Through the issuance of bonds, costs to pay for principal and interest on obligations resulting from the issuance of bonds.

Capital Improvement – Costs for major repair and maintenance of water mains improvements in replacement or repairs and purification plant improvements funded through year-end cash flows

Capital Improvement Borrowed – Funds borrowed, a total of \$86 million, to upgrade the water processing system; the balanced to be paid by 2019

2. The Water Works has been authorized to adjust water rates 5 times between 1990 through 2002. The water bill is based on water consumption and the rates below are based on an average consumption of 32-34 CCF (hundred cubic feet).

Effective Date	PSC Granted ROR (a)	% Increase Residential Class (b)	Inc. & Bill Single Family Home Per Quarter (c)	Incr. & Bill Residential Class Per Quarter (d)
1/21/91	8%	19%	\$3.80 / \$24.09	\$4.88 / \$30.84
10/18/94	7.25%	18%	\$4.82 / \$31.82	\$6.08 / \$39.83
9/28/99	4.5%	15%	\$4.67 / \$36.49	\$5.89 / \$39.83
2/6/01		3.4% COLA	\$1.24 / \$37.73	\$1.56 / \$47.32
Pending	6.5%	10.6%	\$3.86 / \$41.59	\$4.89 / \$50.82

(a) Rate of Return

(b) The percentage of the adjusted rate increase designated by the PSC to the Residential Class.

(c) The average increase and bill for a single family home, per quarter.

(d) The adjusted rate increase and bill for 1 to 4 residential units per quarter.

Fiscal Impact

1. If approved, the authorized water rates, will be prorated for all customer for water consumption as of March 1, 2002. The new rates will result in an estimated \$6,361,972 in additional revenue for 2002.
2. A new effective date must be established as the Utilities and Licenses deferred action on the file authorizing rate increases on March 12, 2002, and set meetings for April 16 and April 23, 2002 for public testimony on the file.

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