

LRB-RESEARCH AND ANALYSIS SECTION ANALYSIS

**JUNE 7, 2006 AGENDA
PUBLIC WORKS COMMITTEE**

**ITEM 30, FILE 060161
EMMA J. STAMPS**

File #060161 is a resolution relative to review of Milwaukee Water Works' rates.

Background

1. The Public Service Commission of Wisconsin (PSC) is responsible for regulating more than 1,300 Wisconsin public utilities, including those municipally owned. The Milwaukee Water Works must first obtain PSC approval before setting new rates, undertaking major construction projects, and issuing bonds.
2. Water utilities can apply to the Public Service Commission to implement two different types of rate increases:
 - Simplified Rate Case (SRC) – a cost of living increase based on the rate of inflation and not need
 - Full rate increase – based on a need assessment
3. The SRC process includes a SRC application and a notice to customers, but does not require a public hearing. The Full Rate Increase applications require both.
4. The Milwaukee Water Works' last rate adjustment, implemented in June 2002 pursuant to PSC 3720WR104 and Common Council File No. 011572, provided for a 6.5% rate of return (ROR).

Discussion

1. At this time, MWW is 1 of 6 AB class utilities (serving +4,000 customers) permitted to earn a 6.5% ROR:

UTILITY NAME	PSC ORDER	DATE	
		APPROVED	ROR
CEDARBURG LIGHT AND WATER COMMISSION	1000WR104	11/17/2005	6.50%
MENOMONEE FALLS VILLAGE OF WTR UTY	3580WR102	8/14/2000	6.50%
MILWAUKEE WATER WORKS	3720WR104	2/15/2002	6.50%
MONROE MUNICIPAL WATER UTILITY	3820WR103	5/17/2004	6.50%
WAUKESHA WATER UTILITY CITY OF	6240WR104	10/26/2005	6.50%
WEST BEND CITY OF WATER UTY	6380WR111	10/13/2005	6.50%

Source: PSC website

2. The Water Works' projects a 2.67% ROR for 2006 but plans to submit applications to request an increase based on the rate of inflation and another based on a rate of return that is less than 6.5% but more than 2.67%.
3. If both are approved, retail water rates would increase in 2006 and again in 2007.
4. File 060161 authorizes the Superintendent of the Milwaukee Water Works to submit to the PSC two types of applications for rate increase:
 - Simplified Rate Case Application, based on the rate of inflation, to be implemented in 2006 upon PSC approval
 - Full Rate Increase Application, based upon a PSC review of MWW financial statements, to be implemented in 2007 upon PSC approval and subsequent adoption of a Common Council resolution

Fiscal Impact

The estimated revenue impact for 2006 cost of living increase totals \$2,100,000 and the 2007 full rate increase is expected to generate \$4,500,000 in additional water revenue.

cc:	Marianne Walsh	Jeff Mantes	Mark Nicolini	Prepared by: Emma J Stamps x 8666
	W. Martin Morics	Carrie Lewis	Erick Shambarger	LRB-Fiscal Review Section
	Craig Kammholz	Laura Daniels		June 5, 2006