

SERVICE DATE
Oct 25, 2019

PSC REF#: 378145

Public Service Commission of Wisconsin
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PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of the Village of Wittenberg, Shawano County,
Wisconsin, as a Water Public Utility, for Authority to Adjust Water
Rates

6740-WR-102

FINAL DECISION

This is the Final Decision in the Class 1 proceeding conducted by the Public Service Commission (Commission) on the application of Wittenberg Municipal Water and Sewer Utility (applicant) for approval to increase water rates. This application is APPROVED subject to conditions.

Introduction

The applicant applied to the Commission on March 15, 2019, for authority to increase water rates. The applicant filed its rate application after receiving a letter from Commission staff outlining Commission staff's concerns regarding the applicant's financial integrity. (PSC REF#: 375823.) Pursuant to due notice, the Commission held a telephonic hearing at Madison and Wittenberg on October 10, 2019, before Administrative Law Judge Michael E. Newmark. The parties, for purposes of review under Wis. Stat. §§ 227.47 and 227.53, are listed in Appendix A. The applicant is the only party to this proceeding.

Findings of Fact

1. The applicant's presently authorized rates for water utility service will produce operating revenues of \$142,293 for the 2019 test year. These rates fall short of the test year revenue needed by \$93,093 and are unreasonable.

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2. The estimated net investment rate base applicable to water utility operations for the 2019 test year is \$1,304,108.

3. The rate changes set forth for water service in Appendix C will permit the applicant to earn the necessary revenue requirement and are consistent with the cost of service and rate design.

Conclusions of Law

1. The applicant is a municipal public utility as defined in Wis. Stat. § 196.01(5)(a).

2. The Commission has authority under Wis. Stat. §§ 196.02(1), 196.03(1) and (3), 196.19, 196.20, 196.22, 196.37(1), (2), and (3), and 196.395 to authorize the applicant to increase water utility rates and revise tariff provisions.

3. The Commission has authority under Wis. Stat. § 15.02(4) to delegate to the Administrator of the Division of Water Utility Regulation and Analysis, those functions vested by law as enumerated above.

Opinion

Unauthorized Construction Project

In 2015, the applicant commenced construction of an automatic meter reading (AMR) system at a cost of \$132,392 without requesting or receiving a Certificate of Authority (CA) from the Commission. The applicant does not have any previous history of non-compliance with Wis. Admin. Code § PSC 184 or Wis. Stat. § 196.49. On September 6, 2019, the Commission reprimanded the applicant under docket 6740-WI-100 for commencing construction of the project without authorization, and noted that the remaining elements of the project were under review by Commission staff in docket 6740-CW-103. (PSC REF#: 375433.) On September 10,

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2019, in docket 6740-WI-100, the applicant submitted a response to the Commission's letter of reprimand detailing actions it will take in order to prevent a repeat occurrence of commencing construction prior to receipt of construction authority. (PSC REF#: 375553.) On September 16, 2019, in docket 6740-CW-103, the Commission authorized the construction of the remaining components of the AMR system. (PSC REF#: 375788.) The Commission finds there are reasonable indications the applicant now understands the statutory requirements that require Commission approval prior to constructing projects above a certain cost threshold and notes the remaining components of the AMR project have been authorized under docket 6740-CW-103 for the reasons stated in the docket. As such, the Commission determines it is reasonable to allow recovery of the \$132,392 for construction of the AMR system.

Net Investment Rate Base

The estimated net investment rate base for the 2019 test year is as follows:

Utility Financed Plant in Service	\$1,948,052
Less: Accumulated Provision for Depreciation	<u>\$638,313</u>
Net Plant in Service	\$1,309,739
Plus: Materials and Supplies	25,660
Less: Regulatory Liability for Pre-2003 Accumulated Depreciation - CIAC	<u>31,291</u>
Net Investment Rate Base	<u>\$1,304,108</u>

Comparative Income Statement

Commission staff submitted in the record a revenue requirement for the test year as shown in Ex.-PSC-Revenue Requirement. The estimated test year income statement showing the effect of the increase in revenue which will result from authorized rates is as follows:

	<u>At Present Rates</u>	<u>Authorized Increase</u>	<u>After Rate Increase</u>
Operating Revenues	\$142,293	\$93,093	\$235,386
Operating Expenses:			
Oper. & Maint. Exp.	\$121,722		\$121,722
Depreciation	46,633		46,633
Taxes & Tax Equiv.	<u>3,130</u>		<u>3,130</u>
Total Oper. Expenses	<u>\$171,485</u>		<u>\$171,485</u>
Oper. Income (or Loss)	<u>(\$29,192)</u>		<u>\$63,901</u>
Rate of Return	N/A		4.90%

The depreciation expense included in the revenue requirement for the 2019 test year was computed using the depreciation rates shown in Appendix E. These depreciation rates are effective on January 1, 2019, for computing the depreciation expense on the average investment for each plant account.

Capital Structure

The applicant requested a 5.30 percent return on net investment rate base which was the benchmark rate of return at the time the application was requested. The benchmark rate of return is calculated weekly based on a three-month rolling average of municipal bond rates, with a floor determined annually. The benchmark rate of return at the time the revenue requirement was finalized for this case was 4.90 percent. The applicant’s capital employed in providing public utility service is estimated to be 60.30 percent municipal equity that is associated with the net investment rate base and 39.70 percent long-term debt. A return on rate base of 4.90 percent will provide an 8.13 percent return on municipal earning equity and will provide adequate times interest coverage. This return on rate base will provide the municipality with sufficient earnings

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on its investment and maintain confidence in the utility's financial integrity without resulting in rates to customers that are excessive.

Cost of Service

Commission staff submitted for the record an analysis of the cost of supplying water for general service and for public fire protection service. Commission staff used the base-extra capacity cost allocation method for the analysis. Under this method, the operating expenses are allocated first to the service cost functional components of base, customer, extra-capacity maximum-day and extra capacity maximum-hour demand, and fire protection and then to each of the customer classes served. Summaries of these analyses are shown in Schedules 8 and 11 of Ex.-PSC-COSS and Rate Design, Commission staff's proposal in the record in this proceeding. Appendix B shows customer class revenue requirements resulting from the cost analysis compared with revenues at authorized rates.

Rates

Water service rates authorized in this decision will result in an estimated net operating income of approximately \$63,901 which provides a 4.90 percent return on the water utility net investment rate base of \$1,304,108. The applicant was provided with Commission staff's proposed rates for review prior to the hearing and had no objection to these rates.

As shown in attached Appendix C, at the request of the applicant, Commission staff changed the customer class-based rates for water service. The Residential and Multifamily classes have a uniform rate structure. The Nonresidential class, which includes commercial, industrial, and public authority customers, will retain the declining block rate structure.

The base-extra capacity cost allocation method results in a relatively wide range of increases in the charges to the various general service customer classes to reflect the cost of providing service to such classes. The percentage rate increase to any individual customer will not necessarily equal the overall percentage increase to the associated customer class, but rather will depend on the specific usage level of that customer.

Two water customers provided comment during the hearing. One questioned the rate structure the applicant selected, and one spoke in opposition to the rate increase, expressing concern over the magnitude of the increase and its impact on customers. Four other customers attended the hearing but did not provide written comment in favor or opposed to the rate increase. The Commission appreciates the customers' concerns in this matter. However, the Commission finds that the revenue resulting from the authorized rates is necessary to provide for the financial needs of the utility over the long-term. The Commission further concludes that the rates as proposed by Commission staff would provide a reasonable and nondiscriminatory recovery of the revenue requirement and more appropriately reflect projected water use of the various customer classes. Accordingly, the Commission approves Commission staff's proposed rates as shown in Ex.-PSC-COSS and Rate Design of the hearing record.

The authorized rates as set forth in Appendix C are based on the cost of supplying various classes or types of service. All customers will be required to pay an appropriate amount for the service provided.

Some typical water bills for residential, multifamily residential, commercial, industrial, and public authority customers were computed using Schedule Mg-1 to compare existing rates with the new rates. That comparison is set forth in Appendix D.

The overall increase in annual revenues is 68.84 percent, and is comprised of a 104.03 percent increase in general service charges and a 19.16 percent increase in fire protection charges. A typical residential customer's bill will rise 59.81 percent. Rates have risen because of a 379.86 percent increase in gross plant investment and an 117.82 percent increase in operating expenses since the applicant's last rate case in 1995. The typical bills calculated using the authorized rates are approximately average when compared with those of similarly sized water utilities in the state.

The general service charges will increase by 104.03 percent, compared to a 19.16 percent increase in the annual public fire protection charge. The larger increase in general service charges results from a greater proportion of the annual operating costs being allocated to general service compared to what was allocated at the time of the applicant's last rate proceeding, and is based on current ratios of maximum general service demand to available system fire protection capacity. The larger increase in general service charges is reasonable in that it reflects the cost of providing service appropriately.

The applicant has agreed to revise its tariff provisions (operating rules and main extension rules) to be consistent with those of other Wisconsin water utilities. The proposed rules were incorporated into the record by receipt of Ex.-PSC-COSS and Rate Design which incorporates the rules by reference. They are in accordance with Commission policy and the Wisconsin Administrative Code.

Effective Date

The test year commenced on January 1, 2019. Pursuant to Wis. Stat. § 196.19, the changes in rates and tariff provisions that are authorized in this Final Decision take effect no

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sooner than one day after the date of service, provided that these rates and tariff provisions are filed with the Commission, and the applicant makes a copy of the new rates available to the public before this date by placing a copy of the new rates at locations where customer payments are accepted, on the applicant's website, or in a form and place that is otherwise readily accessible to the public.

Order

1. **This Final Decision takes effect one day after the date of service.**
2. The authorized rate increases and tariff provisions shall take effect no sooner than one day after the day the applicant has: (a) filed these rates and tariff provisions with the Commission; and (b) made them available to the public at locations where customer payments are accepted, on the applicant's website, or in a form and place that is otherwise readily accessible to the public, pursuant to Wis. Stat. § 196.19 and Wis. Admin. Code § PSC 185.33(1) (f). If a copy of the new rates and tariff provisions is not made available to the public when they are filed with the Commission, the new rates and tariff provisions shall take effect one day after the day they are made available to the public.
3. The rates approved in this docket shall take effect no later than 90 days from the service date of this Final Decision or as directed by the Commission or Commission staff.

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4. Jurisdiction is retained.

Dated at Madison, Wisconsin, October 24, 2019

For the Commission:

A handwritten signature in black ink, appearing to read "Denise L. Schmidt". The signature is written in a cursive, flowing style.

Denise L. Schmidt
Administrator
Division of Water Utility Regulation and Analysis

DLS:alf;jac DL:01704607

See attached Notice of Appeal Rights

RATE FILE

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Schedule No. F-1

Amendment No. 23

Public Service Commission of Wisconsin

Wittenberg Municipal Water and Sewer Utility

Public Fire Protection Service

Public fire protection service shall include the use of hydrants for fire protection service only and such quantities of water as may be demanded for the purpose of extinguishing fires within the service area. This service shall also include water used for testing equipment and training personnel. For all other purposes, the metered or other rates set forth, or as may be filed with the Public Service Commission shall apply.

Under Wis. Stat. § 196.03(3)(b), the municipality has chosen to have the utility bill the retail general service customers for public fire protection service.

Quarterly **(Public Fire Protection)** Service Charges:

5/8 - inch meter:	\$ 33.00	3 - inch meter:	\$ 132.00
3/4 - inch meter:	\$ 33.00	4 - inch meter:	\$ 165.00
1 - inch meter:	\$ 42.00	6 - inch meter:	\$ 198.00
1 1/4 - inch meter:	\$ 57.00	8 - inch meter:	\$ 231.00
1 1/2 - inch meter:	\$ 66.00	10 - inch meter:	\$ 264.00
2 - inch meter:	\$ 99.00	12 - inch meter:	\$ 297.00

Customers who are provided service under Schedules Mg-1R, Mg-1MF, Mg-1NR, Ug-1 or Sg-1 shall also be subject to the charges in this schedule according to the size of their primary meter. Customers who are provided service under Schedule Am-1 are exempt from these charges for any additional meters.

Billing: Same as Schedule Mg-1R.

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Schedule No. Mg-1R

Amendment No. 23

Public Service Commission of Wisconsin

Wittenberg Municipal Water and Sewer Utility

General Service – Metered - Residential

Quarterly Service Charges:

5/8 - inch meter:	\$ 24.00	3 - inch meter:	\$ 129.00
3/4 - inch meter:	\$ 24.00	4 - inch meter:	\$ 219.00
1 - inch meter:	\$ 30.00	6 - inch meter:	\$ 270.00
1 1/4 - inch meter:	\$ 39.00	8 - inch meter:	\$ 405.00
1 1/2 - inch meter:	\$ 48.00	10 - inch meter:	\$ 585.00
2 - inch meter:	\$ 78.00	12 - inch meter:	\$ 768.00

Plus Volume Charges:

All water used quarterly: \$3.06 per 1,000 gallons

Billing: Bills for water service are rendered quarterly and become due and payable upon issuance following the period for which service is rendered. A late payment charge of 3 percent but not less than 50 cents will be added to bills not paid within 20 days of issuance. This ONE-TIME 3 percent late payment charge will be applied only to any unpaid balance for the current billing period's usage. This late payment charge is applicable to all customers. The utility customer may be given a written notice that the bill is overdue no sooner than 20 days after the bill is issued and unless payment or satisfactory arrangement for payment is made within the next 10 days, service may be disconnected pursuant to Wis. Admin. Code ch. PSC 185.

Combined Metering: Volumetric meter readings will be combined for billing if the utility for its own convenience places more than one meter on a single water service lateral. Multiple meters placed for the purpose of identifying water not discharged into the sanitary sewer are not considered for utility convenience and shall not be combined for billing. This requirement does not preclude the utility from combining readings when metering configurations support such an approach. Meter readings from individually metered separate service laterals shall not be combined for billing purposes.

Residential Class customers include single-family homes, duplexes, and individually-metered condominiums, apartments, and mobile homes.

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Schedule No. Mg-1MF

Amendment No. 23

Public Service Commission of Wisconsin

Wittenberg Municipal Water and Sewer Utility

General Service – Metered – Multifamily Residential

Quarterly Service Charges:

5/8 - inch meter:	\$ 24.00	3 - inch meter:	\$ 129.00
3/4 - inch meter:	\$ 24.00	4 - inch meter:	\$ 219.00
1 - inch meter:	\$ 30.00	6 - inch meter:	\$ 270.00
1 1/4 - inch meter:	\$ 39.00	8 - inch meter:	\$ 405.00
1 1/2 - inch meter:	\$ 48.00	10 - inch meter:	\$ 585.00
2 - inch meter:	\$ 78.00	12 - inch meter:	\$ 768.00

Plus Volume Charges:

All water used quarterly: \$3.06 per 1,000 gallons

Billing: Bills for water service are rendered quarterly and become due and payable upon issuance following the period for which service is rendered. A late payment charge of 3 percent but not less than 50 cents will be added to bills not paid within 20 days of issuance. This ONE-TIME 3 percent late payment charge will be applied only to any unpaid balance for the current billing period's usage. This late payment charge is applicable to all customers. The utility customer may be given a written notice that the bill is overdue no sooner than 20 days after the bill is issued and unless payment or satisfactory arrangement for payment is made within the next 10 days, service may be disconnected pursuant to Wis. Admin. Code ch. PSC 185.

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Multifamily Residential customers include master-metered multifamily dwelling units such as condominium complexes, apartment buildings, and mobile home parks.

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Schedule No. Mg-1NR

Public Service Commission of Wisconsin

Amendment No. 23

Wittenberg Municipal Water and Sewer Utility

General Service – Metered - Nonresidential

Quarterly Service Charges:

5/8 - inch meter:	\$ 24.00	3 - inch meter:	\$ 129.00
3/4 - inch meter:	\$ 24.00	4 - inch meter:	\$ 219.00
1 - inch meter:	\$ 30.00	6 - inch meter:	\$ 270.00
1 1/4 - inch meter:	\$ 39.00	8 - inch meter:	\$ 405.00
1 1/2 - inch meter:	\$ 48.00	10 - inch meter:	\$ 585.00
2 - inch meter:	\$ 78.00	12 - inch meter:	\$ 768.00

Plus Volume Charges:

First 20,000 gallons used each quarter:	\$3.09 per 1,000 gallons
Next 480,000 gallons used each quarter:	\$2.79 per 1,000 gallons
Over 500,000 gallons used each quarter:	\$2.01 per 1,000 gallons

Billing: Bills for water service are rendered quarterly and become due and payable upon issuance following the period for which service is rendered. A late payment charge of 3 percent but not less than 50 cents will be added to bills not paid within 20 days of issuance. This ONE-TIME 3 percent late payment charge will be applied only to any unpaid balance for the current billing period's usage. This late payment charge is applicable to all customers. The utility customer may be given a written notice that the bill is overdue no sooner than 20 days after the bill is issued and unless payment or satisfactory arrangement for payment is made within the next 10 days, service may be disconnected pursuant to Wis. Admin. Code ch. PSC 185.

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Nonresidential Class includes commercial, industrial, and public authority customers. Commercial customers include business entities and institutions, except governmental entities, that provide goods or services. Churches and parochial schools are not governmental and are classified as commercial. Industrial customers include customers who are engaged in the manufacture or production of goods. Public Authority customers include any department, agency, or entity of local, state, or federal government, including public schools, colleges, and universities.

EFFECTIVE: =TBD=
PSCW AUTHORIZATION: 6740-WR-102