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PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of the City of Racine, Racine County, Wisconsin, as a
Water Public Utility, for Authority to Adjust Water Rates

4900-WR-113

Public Service Commission of Wisconsin
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FINAL DECISION

This is the Final Decision in the Class 1 proceeding conducted by the Public Service Commission (Commission) on the application of Racine Water Works Commission (applicant) for approval to increase water rates. This application is APPROVED, subject to conditions.

Introduction

The applicant applied to the Commission on April 7, 2017, for authority to increase water rates. Pursuant to due notice, the Commission held a telephonic hearing at Madison and Racine on August 29, 2017, 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 \$20,530,465 for the 2017 test year. These rates fall short of the test year revenue needed by \$1,490,420 and are unreasonable.
2. The estimated net investment rate base applicable to water utility operations for the 2017 test year is \$85,798,541.

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, Telecommunications, and Consumer Affairs, those functions vested by law as enumerated above.

Opinion

Net Investment Rate Base

The estimated net investment rate base for the 2017 test year is as follows:

| | |
|---|---------------------|
| Utility Financed Plant in Service | \$132,373,160 |
| Less: Accumulated Provision for Depreciation | <u>\$45,902,729</u> |
| Net Plant in Service | \$86,470,431 |
| Plus: Materials and Supplies | 390,000 |
| Less: Regulatory Liability for Pre-2003 Accumulated Depreciation - CIAC | <u>1,061,890</u> |
| Net Investment Rate Base | <u>\$85,798,541</u> |

Comparative Income Statement

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 | \$20,530,465 | \$1,490,420 | \$22,020,885 |
| Operating Expenses: | | | |
| Oper. & Maint. Exp. | \$10,633,239 | | \$10,633,239 |
| Depreciation | 3,501,331 | | 3,501,331 |
| Taxes & Tax Equiv. | <u>3,596,388</u> | | <u>3,596,388</u> |
| Total Oper. Expenses | <u>\$17,730,958</u> | | <u>\$17,730,958</u> |
| Oper. Income (or Loss) | <u>\$2,799,507</u> | | <u>\$4,289,927</u> |
| Rate of Return | 3.26% | | 5.00% |

The depreciation expense included in the revenue requirement for the 2017 test year was computed using the depreciation rates shown in Appendix E. These depreciation rates are effective on January 1, 2017, for computing the depreciation expense on the average investment for each plant account.

Capital Structure

The applicant’s capital employed in providing public utility service that is associated with the net investment rate base is estimated to be 71.55 percent municipal equity and 28.45 percent long-term debt. The composite cost of debt is 3.50 percent. A return on rate base of 5.00 percent will provide a 6.08 percent return on municipal earning equity and 3.42 times interest coverage. This return on rate base will provide the municipality with sufficient earnings on its

investment. This return on rate base will also maintain confidence in the utility's financial integrity without resulting in rates to customers that are excessive.

Cost of Service

Commission staff concurred with the applicant's analysis of the cost of supplying water for general service and for public fire protection service. The applicant used the base-extra capacity cost allocation method for the analysis. Under this method, the operating expenses are allocated first to the service cost functions of extra-capacity maximum-day and maximum-hour demand, base, customer, and fire protection and then to each of the customer classes served. Summaries of such analyses are shown in Schedules 8 and 11 of Ex.-Racine-Sheard-4 of 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 \$4,289,927 which provides a 5.00 percent return on the water utility net investment rate base of \$85,798,541. 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 B, the base-extra capacity cost allocation method results in a relatively narrow 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 will depend on the specific usage level of that customer.

One Suburban retail water customer filed a comment via the Commission's Electronic Records Filing (ERF) System in opposition to the 25 percent surcharge that is applied to all Suburban retail customers. The Commission appreciates the Suburban retail customer's concern. However, the Commission finds it reasonable to apply the 25 percent surcharge to Suburban retail customers pursuant to Schedule Mg-2, General Service - Suburban, in lieu of the portion of the property taxes that the City of Racine retail customers pay for public fire protection service pursuant to Racine's Schedule F-1, Public Fire Protection Service. The Commission further concludes that the rates as proposed by Racine would provide a reasonable and nondiscriminatory recovery of the revenue requirement. Accordingly, the Commission approves Racine's proposed rates as shown in Ex.-Racine-Sheard-4 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 7.64 percent, comprised of a 9.04 percent increase in general service charges and a 4.18 percent decrease in fire protection charges. A typical residential customer's bill will rise 8.88 percent. Rates have risen because of a 6.80 percent increase in gross plant investment and an 11.95 percent increase in operating expenses since the applicant's last rate case in 2014. The typical bills calculated using the

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authorized rates are approximately average when compared with those of similar water utilities in the state.

The general service charges will increase by 9.04 percent, compared to a 4.18 percent decrease in the annual public fire protection charge. The larger increase in general service charges results because a greater proportion of the annual operating costs is allocated to general service than was allocated at the time of the applicant's last rate proceeding, 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 appropriately reflects the cost of providing service.

The applicant's tariff provisions (operating rules and main extension rules) are consistent with those of other Wisconsin water utilities and are in accordance with Commission policy and the Wisconsin Administrative Code.

Effective Date

The test year commenced on January 1, 2017. Pursuant to Wis. Stat. §§ 196.19 and 196.21, the changes in rates and tariff provisions that are authorized in this Final Decision take effect no sooner than one day after the date of service, provided that these rates and tariff provisions are filed with the Commission and the utility 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 utility's Internet site, 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 utility 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 utility's Internet site, 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.
4. Jurisdiction is retained.

Dated at Madison, Wisconsin, September 7, 2017

For the Commission:



Steven A. Knudson
Administrator
Division of Water, Telecommunications, and Consumer Affairs

SAK:dlp;jac:DL:01557960

See attached Notice of Appeal Rights

RACINE WATER WORKS COMMISSION

Authorized Water Rates and Rules

Public Fire Protection Service - - - F-1

Public fire protection service includes 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.

The annual charge for public fire protection service to the City of Racine shall be \$1,806,424. The utility may bill for this amount in equal quarterly installments.

Billing: Same as Schedule Mg-1.

Private Fire Protection Service - Unmetered - - - Upf-1

This service shall consist of permanent or continuous unmetered connections to the main for the purpose of supplying water to private fire protection systems such as automatic sprinkler systems, standpipes, and private hydrants. This service shall also include reasonable quantities of water used for testing check valves and other backflow prevention devices.

Quarterly Private Fire Protection Service Demand Charges:

| | <u>Quarterly</u> | <u>Monthly</u> |
|-------------------------------------|------------------|----------------|
| 2 - inch or smaller connection - \$ | 21.00 | 7.00 |
| 3 - inch connection - \$ | 36.00 | 12.00 |
| 4 - inch connection - \$ | 51.00 | 17.00 |
| 6 - inch connection - \$ | 102.00 | 34.00 |
| 8 - inch connection - \$ | 177.00 | 59.00 |
| 10 - inch connection - \$ | 252.00 | 84.00 |
| 12 - inch connection - \$ | 327.00 | 109.00 |
| 14 - inch connection - \$ | 402.00 | 134.00 |
| 16 - inch connection - \$ | 477.00 | 159.00 |

Billing: Same as Schedule Mg-1.

General Service - Metered - - - Mg-1

Service Charges:

| | <u>Quarterly</u> | <u>Monthly</u> | | <u>Quarterly</u> | <u>Monthly</u> |
|------------------------|------------------|----------------|---------------------|------------------|----------------|
| 5/8 -inch meter - \$ | 20.88 | 6.96 | 3 -inch meter - \$ | 123.00 | 41.00 |
| 3/4 -inch meter - \$ | 20.88 | 6.96 | 4 -inch meter - \$ | 186.00 | 62.00 |
| 1 -inch meter - \$ | 33.60 | 11.20 | 6 -inch meter - \$ | 324.00 | 108.00 |
| 1 1/4 -inch meter - \$ | 45.00 | 15.00 | 8 -inch meter - \$ | 489.00 | 163.00 |
| 1 1/2 -inch meter - \$ | 56.40 | 18.80 | 10 -inch meter - \$ | 708.00 | 236.00 |
| 2 -inch meter - \$ | 85.50 | 28.50 | 12 -inch meter - \$ | 927.00 | 309.00 |

Plus Volume Charges:

| | | |
|-------|---------|---|
| First | 15,000 | cubic feet used quarterly - \$2.58 per 100 cubic feet |
| or | 5,000 | cubic feet used monthly |
| Next | 185,000 | cubic feet used quarterly - \$2.19 per 100 cubic feet |
| or | 61,667 | cubic feet used monthly |
| Over | 200,000 | cubic feet used quarterly - \$1.75 per 100 cubic feet |
| or | 66,667 | cubic feet used monthly |

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 1 percent per month will be added to bills not paid within 20 days of issuance. This late payment charge shall be applied to the total unpaid balance for utility service, including unpaid late payment charges. 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. 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: For a residential customer with more than one meter on a single service lateral, volumetric reading from all meters shall be combined for billing. For a nonresidential customer, volumetric readings may 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 may not be combined for billing. This requirement does not preclude the utility from combining readings where metering configurations support such an approach. Volumetric readings from individually metered separate service laterals may not be combined for billing purposes.

Wholesale Water Service - - - W-1

Wholesale water service to the Village of Caledonia shall be provided at the following rates:

Public Fire Protection Service

Service Charge: \$45,452 per quarter

General Service

Service Charge: \$3,864 per quarter

Volume Charge: \$ 2.07 per 100 cubic feet

Billing: Same as Schedule Mg-1.

General Service - Suburban - - - Mg-2

Water customers residing outside the corporate limits of the City of Racine shall be billed at the regular rates for service (Schedule Mg-1) plus a 25 percent surcharge.

Billing: Same as Schedule Mg-1.

Other Charges - - - OC-1

Payment Not Honored by Financial Institution Charge: The utility shall assess a \$30.00 charge when a payment rendered for utility service is not honored by the customer's financial institution. This charge may not be in addition to, but may be inclusive of, other such charges when the payment was for multiple services.

Real Estate Closing Account Charge: The utility shall assess a \$15.00 charge whenever a customer or the customer's agent requests written documentation from the utility of the customer's account status in connection with a real estate closing.

Billing: Same as Schedule Mg-1.

Public Service - - - Mpa-1

Metered Service

Water used by the City of Racine on an intermittent basis for flushing sewers, street washing, flooding skating rinks, drinking fountains, etc., shall be metered and billed according to the rates set forth in Schedule Mg-1.

Unmetered Service

Where it is impossible to meter the service, the utility shall estimate the volume of water used based on the pressure, size of opening, and the period of time the water is used. The estimated quantity shall be billed at the volumetric rates set forth in Schedule Mg-1, excluding any service charges.

Billing: Same as Schedule Mg-1.

General Water Service - Unmetered - - - Ug-1

Service may be supplied temporarily on an unmetered basis where the utility cannot immediately install a water meter, including water used for construction. Unmetered service shall be billed the amount that would be charged to a metered residential customer using 1,900 cubic feet of water per quarter under Schedule Mg-1, including the service charge for a 5/8-inch meter. If the utility determines that actual usage exceeds 1,900 cubic feet of water per quarter, an additional charge for the estimated excess usage shall be made according to the rates under Schedule Mg-1.

This schedule applies only to customers with a 1-inch or smaller service connection. For customers with a larger service connection, the utility shall install a temporary meter and charges shall be based on the rates set forth under Schedule Mg-1.

Billing: Same as Schedule Mg-1.

Seasonal Service - - - Sg-1

Seasonal customers are general service customers who voluntarily request disconnection of water service and who resume service at the same location within 12 months of the disconnection, unless service has been provided to another customer at that location in the intervening period. The utility shall bill seasonal customers the applicable service charges under Schedule Mg-1 year-round, including the period of temporary disconnection.

Seasonal service shall include customers taking service under Schedule Mg-1 or Schedule Ug-1.

Upon reconnection, the utility shall apply a charge under Schedule R-1 and require payment of any unpaid charges under this schedule.

Billing: Same as Schedule Mg-1, unless the utility and customer agree to an alternative payment schedule for the period of voluntary disconnection.

Bulk Water - - - BW-1

All bulk water supplied from the water system through hydrants or other connections shall be metered or estimated by the utility. Utility personnel or a party approved by the utility shall supervise the delivery of water.

Bulk water sales are:

- A. Water supplied by tank trucks or from hydrants for the purpose of extinguishing fires outside the utility's service area;
- B. Water supplied by tank trucks or from hydrants for purposes other than extinguishing fires, such as water used for irrigation or filling swimming pools; or,
- C. Water supplied from hydrants or other temporary connections for general service type applications, except that Schedule Ug-1 applies for water supplied for construction purposes.

A service charge of \$50.00 and a charge for the volume of water used shall be billed to the party using the water. The volumetric charge shall be calculated using the highest volumetric rate for residential customers under Schedule Mg-1. In addition, for meters that are assigned to bulk water customers for more than 7 days, the applicable service charge in Schedule Mg-1 will apply after the first 7 days.

The water utility may require a reasonable deposit for the temporary use of its equipment under this and other rate schedules. The deposit(s) collected shall be refunded upon return of the utility's equipment. Damaged or lost equipment shall be repaired or replaced at the customer's expense.

Billing: Same as Schedule Mg-1.

Reconnection Charges - - - R-1

The utility shall assess a charge to reconnect a customer, which includes reinstalling a meter and turning on the valve at the curb stop, if necessary. A utility may not assess a charge for disconnecting a customer.

| | |
|-------------------------------|---------|
| During normal business hours: | \$50.00 |
| After normal business hours: | \$70.00 |

Billing: Same as Schedule Mg-1.

Water Lateral Installation Charge - - - Cz-1

The utility shall charge a customer for the actual cost of installing a water service lateral from the main through curb stop and box if these costs are not contributed as part of a subdivision development or otherwise recovered under Wis. Stats. Chapter 66.

Billing: Same as Schedule Mg-1.

Rules and Regulations - - - X-1

Delete Schedule X-1. Incorporate the operating rules for municipal water utilities as provided by the Public Service Commission.

Water Main Extension Rule - - - X-2

Water mains will be extended for new customers on the following basis:

- A. Where the cost of the extension is to immediately be collected through assessment by the municipality against the abutting property, the procedure set forth under Wis. Stat. § 66.0703 will apply, and no additional customer contribution to the utility will be required.
- B. Where the municipality is unwilling or unable to make a special assessment, the extension will be made on a customer-financed basis as follows:
 - 1. The applicant(s) will advance as a contribution in aid of construction the total amount equivalent to that which would have been assessed for all property under paragraph A.

2. Part of the contribution required in paragraph B.1. will be refundable. When additional customers are connected to the extended main within 10 years of the date of completion, contributions in aid of construction will be collected equal to the amount which would have been assessed under paragraph A. for the abutting property being served. This amount will be refunded to the original contributor(s). In no case will the contributions received from additional customers exceed the proportionate amount which would have been required under paragraph A., nor will it exceed the total assessable cost of the original extension.
- C. When a customer connects to a transmission main or connecting loop installed at utility expense within 10 years of the date of completion, there will be a contribution required of an amount equivalent to that which would have been assessed under paragraph A.

Water Main Installations in Platted Subdivisions - - - X-3

Application for installation of water mains in regularly platted real estate development subdivisions shall be filed with the utility.

If the developer, or a contractor employed by the developer, is to install the water mains (with the approval of the utility), the developer shall be responsible for the total cost of construction.

If the utility or its contractor is to install the water mains, the developer shall be required to advance to the utility, prior to the beginning of the construction, the total estimated cost of the extension. If the final costs exceed estimated costs, an additional billing will be made for the balance of the cost due. This balance is to be paid within 30 days. If final costs are less than estimated, a refund of the overpayment will be made by the water utility.

RACINE WATER WORKS COMMISSION

**Representative Customer Bills at
Present and Authorized Rates**

| Representative Customer | Meter | Volume (100 Cubic Feet) | Quarterly | | Percent Change |
|---|-------|----------------------------|------------------------------|---------------------------------|-------------------|
| | | | Bills at Present Rates | Bills at Authorized Rates | |
| Small Residential in Racine | 5/8" | 10 | 43.68 | 46.68 | 7% |
| Small Residential in Suburbs | 5/8" | 10 | 54.60 | 58.35 | 7% |
| Average Residential in Racine | 5/8" | 19 | 64.20 | 69.90 | 9% |
| Average Residential in Suburbs | 5/8" | 19 | 80.25 | 87.38 | 9% |
| Large Residential in Racine | 5/8" | 100 | 248.88 | 278.88 | 12% |
| Large Residential in Suburbs | 5/8" | 100 | 311.10 | 348.60 | 12% |
| Multifamily Residential in Racine | 1" | 200 | 473.60 | 530.10 | 12% |
| Multifamily Residential in Suburbs | 1" | 200 | 592.00 | 662.63 | 12% |
| Large Industrial in Racine | 4" | 15,000 | 25,214.00 | 27,374.50 | 9% |
| Large Industrial in Racine | 12" | 150,000 | 244,655.00 | 264,365.50 | 8% |
| Large Industrial in Suburbs | 10" | 245,000 | 497,920.00 | 537,995.63 | 8% |
| Annual Public Fire Protection to Racine | | | 1,891,389.00 | 1,806,424.00 | -4% |

RACINE WATER WORKS COMMISSION

**Schedule of Water Depreciation Rates
Effective January 1, 2017**

| <u>Account Number</u> | <u>Class of Plant</u> | <u>Depr. Rate</u> |
|---------------------------|---|-----------------------|
| | SOURCE OF SUPPLY PLANT | |
| 313 | Lake, River and Other Intakes | 1.7% |
| 316 | Supply Mains | 1.8% |
| | PUMPING PLANT | |
| 321 | Structures and Improvements | 3.2% |
| 323 | Other Power Production Equipment | 4.4% |
| 325 | Electric Pumping Equipment | 4.4% |
| | WATER TREATMENT PLANT | |
| 331 | Structures and Improvements | 3.2% |
| 332 | Water Treatment Equipment - Filtration | 3.3% |
| 333 | Water Treatment Equipment - Membrane Filtration Media | 10.0% |
| | TRANSMISSION AND DISTRIBUTION PLANT | |
| 342 | Distribution Reservoirs and Standpipes | 1.9% |
| 343 | Transmission and Distribution Mains | 1.3% |
| 345 | Services | 2.9% |
| 346 | Meters | 5.5% |
| 348 | Hydrants | 2.2% |
| | GENERAL PLANT | |
| 390 | Structures and Improvements | 2.9% |
| 391 | Office Furniture and Equipment | 5.8% |
| 391.1 | Computer Equipment | 26.7% |
| 392 | Transportation Equipment | 13.3% |
| 394 | Tools, Shop and Garage Equipment | 5.8% |
| 395 | Laboratory Equipment | 5.8% |
| 396 | Power Operated Equipment | 7.5% |
| 397 | Communication Equipment | 15.0% |