



Public Service Commission of Wisconsin

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Public Service Commission of Wisconsin
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November 21, 2022

Mr. Steve Hatton, Finance Director
 Whitewater Municipal Water Utility
 312 W Whitewater Street
 Whitewater, WI 53190

Re: Application of the City of Whitewater, Walworth and
 Jefferson Counties, Wisconsin, as a Water Public Utility, for
 Authority to Adjust Water Rates

6520-WR-106

Dear Mr. Hatton:

Public Service Commission (Commission) staff has analyzed the Whitewater Municipal Water Utility's (Utility) application for a water rate increase. The Commission received the application on July 31, 2022. The attached proposal contains Commission staff's proposed 2022 test year revenue requirement exhibit (Exhibit) and will serve as the basis for the cost of service study. Andrew Fisher, Rate Analyst, will soon develop the cost of service study and a proposed rate design. The Rate Analyst will file a copy of that exhibit in the Commission's [Electronic Records Filing System](#) (ERF) separately upon completion. Commission staff will submit both proposals at the public hearing, which will be scheduled at a later date.

In its application, the Utility stated that it filed for the rate increase to recover costs incurred from capital projects undertaken by the Utility. In 2022, the Utility obtained Commission approval to replace both of its 100-year-old reservoirs with a new water tower. This replacement project has been on the Utility's future capital planning forecast, but the Utility accelerated the timeline due to the increase in maintenance costs for the two aging reservoirs, and also due to the availability of American Rescue Plan Act (ARPA) funds, which the Utility hopes will lessen the impact on rate payers. The Utility also plans to undertake two infrastructure projects in 2022 that will require replacement of mains and laterals.

The Utility requested a return on net investment rate base of 5.60 percent. The Commission calculates the benchmark rate of return weekly based on a three-month rolling average of municipal bond rates and determines a floor annually. The benchmark rate of return at the time Commission staff finalized the revenue requirement for this case was 6.60 percent. Commission staff estimated the Utility's capital employed in providing public utility service associated with the net investment rate base to be 48.91 percent municipal equity and 51.09 percent long-term debt. The Utility's composite cost of debt is 1.00 percent. A return on rate base of 6.60 percent will provide a 12.45 percent return on municipal earning equity and 12.89 times interest coverage. Commission staff considers that this return on rate base will provide the Utility with sufficient earnings to help address future capital and unforeseen operating needs and will also

maintain confidence in the Utility's financial integrity without resulting in customer rates that are excessive.

Schedule 4 of the Exhibit describes Commission staff's proposed adjustments to the revenue requirement that was requested in the Utility's rate application. During the review of the rate application, Commission staff discovered several issues that resulted in additional analysis and action:

- The Utility received \$194,768 in ARPA funds in 2021 that it used for the water tower construction project in 2022. The Utility incorrectly recorded the funds in Account 474 (Other Water Revenues) in the 2021 PSC Annual Report. These funds should be recorded in Account 421 (Miscellaneous Nonoperating Income). The Utility should make an adjustment to record the funds in Account 421 on the 2021 PSC Annual Report and re-file the report prior to the public hearing in this case.

Schedule 5 of the Exhibit is the list of depreciation rates that is the basis of Commission staff's estimated depreciation expense for the test year. Some depreciation rates may be different than those previously authorized for the Utility. Commission staff recommends that the Commission certify these depreciation rates for use by the Utility effective January 1, 2022. Please note that the general service and public fire protection rates are typically effective within 90 days of the Final Decision.

The Commission staff Exhibit is intended to provide the Commission with Commission staff's analysis and is not a final decision. After reviewing, please confirm the Utility is in agreement with staff's proposed revenue requirement as set forth in the Exhibit within 10 business days of the date of this letter. The Utility should file its confirmation on ERF and identify the document type in ERF as "Exhibit Offered." If the Utility is not in agreement with any individual component(s) of the revenue requirement, please provide detail this in the Utility's reply. Please note that this is the Utility's primary opportunity to address any concerns or changes to Commission staff's proposed revenue requirement. The Utility may present its own case and may submit any additional information it believes to be pertinent to substantiate its position within 10 business days of the date of this letter. If Commission staff does not receive a response within that time, it will assume the Utility is in agreement with the staff proposal, and the Commission staff Rate Analyst will use the revenue requirement to develop a rate proposal. In order to receive notification of official correspondence (i.e. data requests, notices, final decisions, etc.), individuals must subscribe to the Utility ID or PSC Docket. To subscribe, go to the Commission's [ERF](#) system. For help subscribing, go to [Subscribing to Dockets](#).

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If you have any questions regarding the above, please contact me. If you have any questions regarding the status of your rate case, please contact Andrew Fisher at (608) 266-3905 or by e-mail at Andrew.Fisher@wisconsin.gov.

Sincerely,



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Public Service Commission of Wisconsin
Division of Water Utility Regulation and Analysis
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cc: Karen Dieter, Whitewater Municipal Water Utility
Brian Roemer, Ehlers
Lisa Trebatoski, Ehlers

Ex.-PSC-Revenue Requirement

Whitewater Municipal Water Utility

Estimated 2022 Operating Income Statement

Net Investment Rate Base

and 2022 Estimated Revenue Requirement

Whitewater Municipal Water Utility
6520-WR-106
Estimated Operating Revenues
for the 2022 Test Year

	Utility Estimates Test Year 2022	PSC Staff Proposed Adjustments	PSC Staff Estimates Test Year 2022
	<u> </u>	<u> </u>	<u> </u>
Unmetered Sales to General Customers	\$ 0	\$ 0	\$ 0
Metered Sales to General Customers:			
Residential	682,207	0	682,207
Multi-family Residential	160,123	0	160,123
Commercial	110,146	0	110,146
Industrial	594,391	0	594,391
Public Authority	205,103	0	205,103
Irrigation	0	0	0
	<u> </u>	<u> </u>	<u> </u>
Total Metered Sales	\$ 1,751,970	\$ 0	\$ 1,751,970
Private Fire Protection	52,632	0	52,632
Public Fire Protection	533,619	0	533,619
Other Water Sales	11,000	0	11,000
Sales for Resale	0	0	0
Interdepartmental	0	0	0
	<u> </u>	<u> </u>	<u> </u>
Total Water Sales	\$ 2,349,221	\$ 0	\$ 2,349,221
Forfeited Discounts	7,000	0	7,000
Rents of Water Property	26,500	0	26,500
Interdepartmental Rents	0	0	0
Other Water Revenues	20,000	0	20,000
	<u> </u>	<u> </u>	<u> </u>
Total Operating Revenues	\$ <u>2,402,721</u>	\$ <u>0</u>	\$ <u>2,402,721</u>

Whitewater Municipal Water Utility
6520-WR-106
Comparative Income Statement, Net Investment Rate Base, and PSC Adjustments

Net Operating Income Statement:	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Utility Estimates Test Year 2022</u>	<u>PSC Staff Proposed Adjustments</u>	<u>PSC Staff Estimates Test Year 2022</u>
Total Operating Revenues:	\$ <u>1,909,640</u>	\$ <u>2,045,228</u>	\$ <u>2,533,293</u>	\$ <u>2,402,721</u>	\$ <u>(0)</u>	\$ <u>2,402,721</u>
Operating Expenses:						
Source of Supply Expenses	19,143	19,412	15,101	22,750	0	22,750
Pumping Expenses	231,391	223,332	379,965	288,000	(0)	288,000
Water Treatment Expenses	59,405	131,986	173,011	119,650	0	119,650
Trans. and Distr. Expenses	150,343	191,567	173,722	206,075	0	206,075
Customer Accounts Expenses	49,453	53,774	64,359	58,250	0	58,250
Administrative and General Expenses	550,493	547,711	578,644	645,350	702	646,052
Total Operation & Maintenance Expenses	\$ <u>1,060,228</u>	\$ <u>1,167,782</u>	\$ <u>1,384,802</u>	\$ <u>1,340,075</u>	\$ <u>702</u>	\$ <u>1,340,777</u>
Depreciation	190,908	239,725	279,087	394,911	0	394,911
Taxes	369,742	378,618	385,616	441,552	0	441,552
Total Operating Expenses	\$ <u>1,620,878</u>	\$ <u>1,786,125</u>	\$ <u>2,049,505</u>	\$ <u>2,176,538</u>	\$ <u>702</u>	\$ <u>2,177,240</u>
Net Operating Income (Loss)	\$ <u><u>288,762</u></u>	\$ <u><u>259,103</u></u>	\$ <u><u>483,788</u></u>	\$ <u><u>226,183</u></u>	\$ <u><u>(702)</u></u>	\$ <u><u>225,481</u></u>
Net Investment Rate Base:				<u>Utility Estimates Test Year 2022</u>	<u>PSC Staff Proposed Adjustments</u>	<u>PSC Staff Estimates Test Year 2022</u>
Utility Plant in Service				\$ 18,626,766	\$ 0	\$ 18,626,766
Less:						
Accumulated Provision for Depreciation				<u>4,741,610</u>	<u>0</u>	<u>4,741,610</u>
Net Plant in Service				\$ <u>13,885,156</u>	\$ <u>0</u>	\$ <u>13,885,156</u>
Add: Materials and Supplies				22,500	0	22,500
Less: Regulatory Liability - pre-2003 Depreciation on Contributed Plant				<u>76,490</u>	<u>0</u>	<u>76,490</u>
Net Investment Rate Base				\$ <u><u>13,831,166</u></u>	\$ <u><u>0</u></u>	\$ <u><u>13,831,166</u></u>
Rate of Return				1.64%		N/A

Whitewater Municipal Water Utility
6520-WR-106
Estimated Income Statement and Revenue Requirement
for the 2022 Test Year
to Yield a 6.60% Return on the Net Investment Rate Base

	Present Rates	Increase	After Rate Increase
	<u> </u>	<u> </u>	<u> </u>
Total Operating Revenues:	\$ 2,402,721	\$ 687,376	\$ 3,090,097
Operating Expenses:			
Source of Supply Expenses	22,750		22,750
Pumping Expenses	288,000		288,000
Water Treatment Expenses	119,650		119,650
Trans. and Distr. Expenses	206,075		206,075
Customer Accounts Expenses	58,250		58,250
Administrative and General Expenses	<u>646,052</u>		<u>646,052</u>
Total Operation & Maintenance Expenses	\$ 1,340,777		\$ 1,340,777
Depreciation	394,911		394,911
Taxes	441,552		441,552
Total Operating Expenses	\$ 2,177,240		\$ 2,177,240
Net Operating Income (Loss)	\$ 225,481		\$ 912,857
Rate of Return	<u>N/A</u>		<u>6.60%</u>
Net Investment Rate Base:			
Utility Plant in Service	\$ 18,626,766		\$ 18,626,766
Less:			
Accumulated Provision for Depreciation	<u>4,741,610</u>		<u>4,741,610</u>
Net Plant in Service	\$ 13,885,156		\$ 13,885,156
Add: Materials and Supplies	22,500		22,500
Less: Regulatory Liability - pre-2003 Depreciation on Contributed Plant	<u>76,490</u>		<u>76,490</u>
Net Investment Rate Base	\$ 13,831,166		\$ 13,831,166

Whitewater Municipal Water Utility
6520-WR-106
Schedule of Staff Adjustments

	Adjustments at 5.60% ROR
Utility Requested Rate Increase	\$ 548,362 23%
 <u>Adjustments to Expenses</u>	
Acct. 926 - Employee Pensions and Benefits	
Utility Estimate	\$ 203,850
Staff Estimate	\$ 203,120
Adjustment	\$ (730)
<i>Estimate revised to reflect an updated estimate provided by the Utility.</i>	
Acct. 928 - Regulatory Commission Expenses	
Utility Estimate	\$ 1,000
Staff Estimate	\$ 3,333
Adjustment	\$ 2,333
<i>Estimate revised to reflect a three year normalization for rate case costs.</i>	
Acct. 930 - Miscellaneous General Expenses	
Utility Estimate	\$ 5,000
Staff Estimate	\$ 4,099
Adjustment	\$ (901)
<i>Estimate revised to remove a portion of membership dues associated with lobbying.</i>	
Increase to ROR to 6.60%	\$ 138,312
Staff Estimated Rate Increase	\$ 687,376 29%

Whitewater Municipal Water Utility
6520-WR-106
Schedule of Water Depreciation Rates
Effective January 1, 2022

Account Number	Account Title	Depreciation Rate
	SOURCE OF SUPPLY PLANT	
311	Structures and Improvements	3.20%
314	Wells and Springs	2.90%
316	Supply Mains	1.80%
	PUMPING PLANT	
321	Structures and Improvements	3.20%
325	Electric Pumping Equipment	4.40%
326	Diesel Pumping Equipment	4.40%
328	Other Pumping Equipment	4.40%
	WATER TREATMENT PLANT	
331	Structures and Improvements	3.20%
332	Sand or Other Media Filtration Equipment	3.30%
	TRANSMISSION AND DISTRIBUTION PLANT	
342	Distribution Reservoirs and Standpipes	1.90%
343	Transmission and Distribution Mains	1.30%
345	Services	2.90%
346	Meters	5.50%
348	Hydrants	2.20%
	GENERAL PLANT	
390	Structures and Improvements	2.90%
391.1	Computer Equipment	26.70%
392	Transportation Equipment	13.30%
396	Power Operated Equipment	7.50%
397	Communication Equipment	15.00%
397.1	SCADA Equipment	9.20%
398	Miscellaneous Equipment	5.80%