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MEMORANDUM

TO: Administration & Finance Committee
Board of Public Works

FROM: Peggy Steeno, Finance Director/Comptroller/Treasurer
Dave Wepking, Director of Public Works

DATE: December 11, 2019

SUBJECT: Update Regarding Water Rate Case Application/Wisconsin Public Service Commission (PSC) Filing

As we have discussed over recent months, staff has been preparing a water rate case application per Council's approval as part of the 2019 Budget. Staff has spent a substantial number of hours in 2019 completing the PSC's prescribed application form, using 2020 as the test year, and is now ready to submit the case to the PSC.

However, prior to submitting the rate case application, we want to share with you the preliminary results of the application. The current rate increase recommended is 11.32%, which will allow the Utility to obtain a 7% rate of return. This level of rates and return on investments would enable the Utility to make debt payments for currently outstanding and contemplated borrowings, assist in replenishing the Water Utility Fund Balance to a prudent level, and account for the delayed implementation as will be discussed below. Please note, though, that these numbers are subject to change based on the PSC's review of the application as well as the past few annual reports submitted to the PSC for the Water Utility. It is possible that through the analysis by the PSC, as well as a change in the rate of return based on the PSC's findings, the numbers could go up or down. Whether they change or not, staff will bring the PSC recommendation back to both committees in advance of implementation of the new rates.

A ballpark estimate of an 11.32% rate increase on an average residential property, if all classes of customers are increased proportionately, is approximately \$10.94 per quarter, as this increase would apply to only the water portion of the Utility bill, as water is the only recommended increase for 2020. However, please note that the City will likely receive adjusted rates from MMSD in early 2020 that will need to be implemented.

In regard to timing, we expect the PSC's review process to take between 6 and 8 months, as they complete a substantial review of the application and recently filed annual reports, and they are extremely backlogged at this time. In addition, they validate our numbers, normalize one-time costs and revenues, make adjustments as warranted, and complete a cost of service study to ensure that the new rates, according to customer class (residential/commercial/industrial/public), are equitable.

Please let us know if you have any questions in advance of the meeting next Tuesday, December 17, 2019; otherwise, we look forward to discussing this with you then.