

# Financial Challenges for Wisconsin Water Utilities

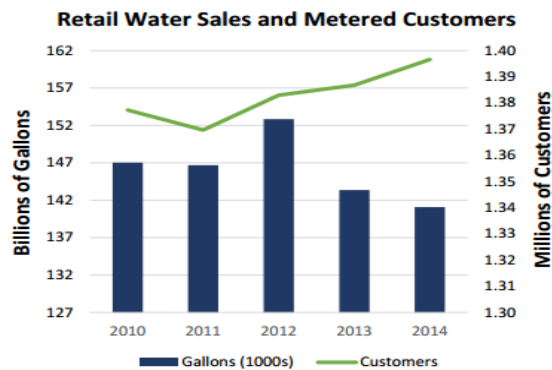
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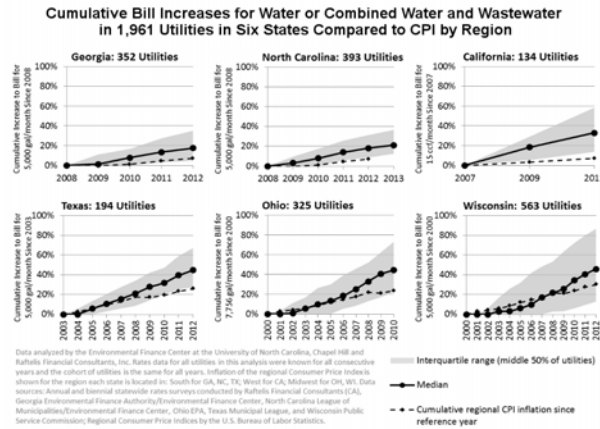
## Declining Water Use



Source: Public Service Commission 2015 Wisconsin Water Fact Sheet



# Increasing Water Rates



Source: Environmental Finance Center University of North Carolina, Chapel Hill



# Deteriorating Infrastructure

## Challenges for the future

Wisconsin's water supply infrastructure, like the nation's, is aging, and citizens and communities face a big bill to upgrade the pipes, pumps and treatment systems necessary to bring safe water to our homes every day.

In 2011, EPA conducted the most recent Drinking Water Infrastructure Needs Survey and Assessment. Nationally, an estimated \$384 billion is needed to meet infrastructure needs between 2011 and 2031. The price tag for Wisconsin was estimated to be over \$7.1 billion. Here's how that bill breaks down:

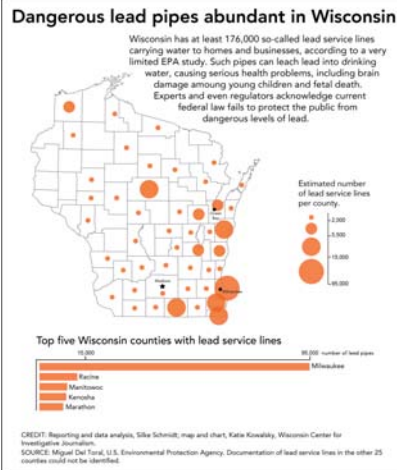
Public Water System	Needs
Large-size system (>100,000 people served)	\$1.7B
Medium-size system (3,300-100,000)	\$3.4B
Small-size system (<3,300 people served)	\$1.5B
Not-for-profit non-community	\$550M

Over 60 percent (\$4.4 billion) of these costs are needed for distribution and transmission infrastructure, while the 20-year treatment facility improvement needs will cost \$1.4 billion.

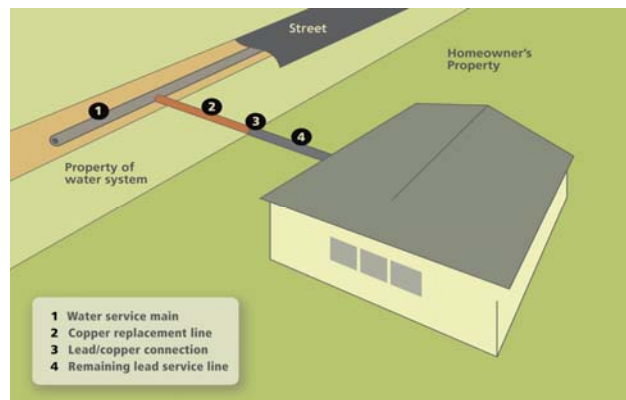
Source: Wisconsin DNR 2015 Annual Drinking Water Report



# Lead Services



# Ownership of Lead Service Lateral



## Funding Replacement of Private Lead Service Laterals

- Problem: PSC does not allow utility to financially assist with the cost of replacing private lead service laterals
- No ratepayer money can be used for replacing private lead service laterals
- It would be an “unwise precedent” to allow utility charges to be put toward a subsidy which clearly and directly benefits a specific group of private property owners

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## Need to Reconsider PSC Position on Funding Private Lead Laterals

- Court recognized that PSC rationale disallowing funding was valid, but PSC decision allowing funding would have also been reasonable
- It is unreasonable to require ratepayers to pay higher costs for chemical addition because of inability or unwillingness of some property owners to replace private lead services
- Funding for private lead service replacement will provide system wide benefits, not just private property owner benefits
- Similar to utility funding provided for efficiency programs

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## Infrastructure Replacement Increases Costs

- When infrastructure is replaced, utility rates will need to increase to cover increased debt service costs
- Utility rates will also need to increase to recover increased PILOT obligation
  - Utilities allowed to include in rates “local and school tax equivalents” Wis. Stat. § 66.0811
  - Payment in Lieu of Taxes (PILOT) increases =
    - Original cost of utility plant + work in progress + materials on hand*
    - x Ratio of assessed value to full value*
    - x Tax rates for City, School District, Vocational School less Tax Credit*

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## PILOT Greatly Increases When Infrastructure Replaced

- EXAMPLE: Utility replaced 5,000 feet of 8” Main, plus hydrants & services
  - 1960 cost      \$32,709      1960 PILOT \$672
  - 2015 cost      \$747,546      2015 PILOT \$14,852
- Replacement increased PILOT on that main by 22 times (2,200%)
- Utility rates need to be increased to pay for cost of infrastructure replacement *plus* PILOT increases

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## PILOT Costs

PILOT as Percentage of Total Revenue Requirement  
(All Numbers in %)

Utility Type	2010				2011			
	<u>Avg.</u>	<u>Min.</u>	<u>Max.</u>	<u>Median</u>	<u>Avg.</u>	<u>Min.</u>	<u>Max.</u>	<u>Median</u>
<b>Water</b>								
Class AB	14.5	0.0	27.9	15.2	14.3	0.0	27.9	15.0
Class C	16.2	0.0	33.1	16.9	16.7	0.0	43.5	17.2
Class D	15.2	0.0	65.6	16.4	16.0	0.0	66.2	16.5
<b>All Utilities</b>	<b>14.9</b>	<b>0.0</b>	<b>65.6</b>	<b>16.2</b>	<b>14.8</b>	<b>0.0</b>	<b>66.2</b>	<b>16.3</b>
<b>Electric</b>								
Class AB	2.5	1.2	5.2	2.5	2.6	1.3	4.9	2.7
Class C	2.7	0.0	7.0	2.5	2.7	0.0	6.3	2.6
Class D	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
<b>All Utilities</b>	<b>2.6</b>	<b>0.0</b>	<b>7.0</b>	<b>2.5</b>	<b>2.6</b>	<b>0.0</b>	<b>6.3</b>	<b>2.6</b>

Source: PSC Investigation into Municipal Utility Payment in Lieu of Taxes  
(PILOT) Staff Report Docket 5-GF-215, January 30, 2013

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## Utility Charge Changes Based on New Smart Meter Information

- Utility rates in part based on water use of customer groups
  - Average water use of customer group
  - Peak water use of customer group
- Smart meter data may challenge historical assumptions on customer group characteristics
  - Industrial customers & public customers may pay more

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## Increasing Fixed Charges

- Volume charge may be relied upon less to recover fixed distribution system costs
- Fixed charges may increase to reflect availability of service
  - Distribution system needed regardless of water use
  - Availability of fire protection system

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## Charging for Fire Protection

- Municipal charge recovered through property taxes
- Direct customer charge
  - Charge typically based on equivalent meters
  - Charge based on property value or square footage
    - Only 20 communities do this but may be the fairest way

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**Thank you**

