

SERVICE DATE
Dec 13, 2021

Public Service Commission of Wisconsin
RECEIVED: 12/13/2021 9:05:00 AM

PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of St. Joseph Sanitary District #1, La Crosse County,
Wisconsin, for Authority to Increase Water Rates

5240-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 St. Joseph Sanitary District #1 (applicant) for approval to increase water rates. This application is APPROVED, subject to conditions.

Introduction

The applicant applied to the Commission on July 3, 2021 for authority to increase water rates. The Commission authorized the applicant's last rate change through the conventional rate case process in docket 5240-WR-101 in a Final Decision dated August 19, 2015. The applicant cited the need to increase revenue to cover increased expenses as the reason for its rate increase request. The final overall rate change authorized is \$29,214, or 25.32 percent, for the test year ending December 31, 2021.

Pursuant to due notice, the Commission held an audio-visual hearing on November 30, 2021 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 \$117,954 for the 2021 test year. These rates fall short of the test year revenue needed by \$29,214 and are unreasonable.

2. The estimated net investment rate base applicable to water utility operations for the 2021 test year is \$405,198.

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 (Division Administrator) those functions vested by law as enumerated above and has delegated the authority to issue this Final Decision to the Division Administrator.

Opinion

Net Investment Rate Base

The estimated net investment rate base for the 2021 test year is as follows:

Utility Financed Plant in Service	\$909,187
Less: Accumulated Provision for Depreciation	<u>\$491,629</u>
Net Plant in Service	\$417,558
Plus: Materials and Supplies	0
Less: Regulatory Liability for Pre-2003 Accumulated Depreciation - CIAC	<u>12,360</u>
Net Investment Rate Base	<u>\$405,198</u>

Comparative Income Statement

Commission staff submitted a revenue requirement for the test year as shown in Ex.-PSC-Revenue Requirement. (PSC REF#: 423497.) The estimated test year income statement showing the effect of the increase in revenue that will result from authorized rates is as follows:

	<u>At Present Rates</u>	<u>Authorized Increase</u>	<u>After Rate Increase</u>
Operating Revenues	\$117,954	\$29,214	\$147,168
Operating Expenses:			
Oper. & Maint. Exp.	\$102,189		\$102,189
Depreciation	23,424		23,424
Taxes & Tax Equiv.	<u>1,700</u>		<u>1,700</u>
Total Oper. Expenses	<u>\$127,313</u>		<u>\$127,313</u>
Oper. Income (or Loss)	<u>(\$9,359)</u>		<u>\$19,855</u>
Rate of Return	N.A.		4.90%

Commission staff computed the depreciation expense included in the revenue requirement for the 2021 test year using the depreciation rates shown in Appendix E. For purposes of computing the depreciation expense on the average investment for each plant account, these depreciation rates are effective as of January 1, 2021.

Capital Structure

The applicant requested a return on net investment rate base of 4.90 percent. The Commission calculates the benchmark rate of return 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 Commission staff finalized the revenue requirement for this case was 4.90 percent. Commission staff estimated the applicant's capital employed in providing public utility service associated with the net investment rate base to be 34.96 percent municipal equity and 65.04 percent long-term debt. The applicant's composite cost of debt is 3.41 percent. A return on rate base of 4.90 percent will provide a 2.68 percent return on municipal earning equity and 2.21 times interest coverage. The Commission finds this return on rate base will provide the applicant with sufficient earnings to help address future capital and operational needs. This return on rate base will also maintain confidence in the applicant's financial integrity without resulting in customer rates that are excessive.

As described in Ex.-PSC-Revenue Requirement, the applicant has experienced high levels of non-revenue water since at least 2017. This high level of non-revenue water is costly to the applicant and places extra stress on its infrastructure without recovering revenue to maintain its assets. The applicant stated that the sewer treatment plant uses approximately 2,000,000 gallons annually, and the applicant has not been billing the sewer department for this water. The

Docket 5240-WR-102

applicant has plans to continue identifying and repairing leaks in its infrastructure and will bill the sewer department for all water used at the treatment plant. While the applicant has taken steps to address its non-revenue water through leak detection and main replacement and anticipates reduction of its non-revenue water in the next several years, the Commission finds it reasonable to require the applicant to use the most recent version of the AWWA Free Audit Software to conduct a detailed water audit. The applicant should use the results of the audit to identify cost-effective measures for reducing non-revenue water and develop a plan that incorporates those measures.

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. This method first allocates the operating expenses 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. Commission staff provided summaries of these analyses in Schedules 8 and 11 of Ex.-PSC-COSS and Rate Design, which is 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. (PSC REF#: 424044.)

Rates

Water service rates authorized in this Final Decision will result in an estimated net operating income of approximately \$19,855, which provides a 4.90 percent return on the water utility net investment rate base of \$405,198. Commission staff provided the applicant with

Commission staff's proposed rates for review prior to the hearing, and the applicant had no objection to these rates.

As shown in attached Appendix B, 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 water use of that customer.

Commission staff evaluated the applicant's request to revise its volume rate blocks and developed a proposal that changed the customer class-based rates for water service. Under the proposed Schedule Mg-1, General Service – Metered, all customer classes share a single uniform volume rate for all water sales. The rates included in Appendix C reflect these changes. The authorized rates as set forth in Appendix C are based on the cost of providing service to various customer classes or types of service. All customers will be required to pay an appropriate amount for the service provided. The Commission finds that the proposed rates help simplify the applicant's rate structure, recover the applicant's costs in an equitable manner, and are reasonable.

Commission staff computed some typical water bills for single family residential, multifamily residential, commercial, and public authority customers using Schedule Mg-1 to compare present rates with the new rates. That comparison is set forth in Appendix D.

The overall increase in annual revenues is 25.32 percent and is comprised of a 26.30 percent increase in general service charges and a 23.38 percent increase in public fire protection charges. A typical single family residential customer's bill will rise 24.20 percent. Rates have

increased because of an 8.56 percent increase in gross plant investment and a 33.26 percent increase in operating expenses since the applicant's last conventional rate case in 2015.

The general service charges will increase by 26.30 percent, compared to a 23.38 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 Commission incorporated the proposed rules 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.

Public Comments

The Commission received no public comments on the Electronic Records Filing (ERF) system. No members of the public attended or provided comments at the hearing.

Effective Date

The test year commenced on January 1, 2021. Pursuant to Wis. Stat. § 196.19, 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 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.
4. No later than 180 days from the effective date of this Final Decision, the applicant shall use the most recent version of the AWWA Free Audit Software to conduct a detailed water audit and use its results to develop a non-revenue water control plan. The applicant shall provide a copy of the audit and plan to the Commission.

Docket 5240-WR-102

5. Jurisdiction is retained.

Dated at Madison, Wisconsin, December 13, 2021.

For the Commission:

A handwritten signature in black ink that reads "Denise L. Schmidt". The signature is written in a cursive style with a large initial "D".

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

DLS:ajh:krl DL:01843898

See attached Notice of Appeal Rights

St. Joseph Sanitary District #1

Customer Water Bill Comparison at Present and Authorized Rates

Customer Type	Meter Size	Volume (1000 Gallons)	Monthly		Percent Change
			Bills at Old Rates	Bills at New Rates	
Small Residential	5/8"	2 \$	23.55 \$	27.90	18.47%
Average Residential	5/8"	4 \$	32.85 \$	40.80	24.20%
Large Residential	5/8"	8 \$	51.45 \$	66.60	29.45%
Large Residential	5/8"	16 \$	88.65 \$	118.20	33.33%
Large Residential	5/8"	24 \$	125.85 \$	169.80	34.92%
Multifamily Residential	1"	10 \$	68.25 \$	86.50	26.74%
Multifamily Residential	1"	18 \$	105.45 \$	138.10	30.96%
Commercial	5/8"	14 \$	79.35 \$	105.30	32.70%
Commercial	1"	14 \$	86.85 \$	112.30	29.30%
Commercial	1"	35 \$	184.50 \$	247.75	34.28%
Commercial	3"	160 \$	697.00 \$	1,079.00	54.81%
Public Authority	5/8"	2 \$	23.55 \$	27.90	18.47%
Public Authority	5/8"	6 \$	42.15 \$	53.70	27.40%
Public Authority	5/8"	12 \$	70.05 \$	92.40	31.91%
Public Fire Protection (Annual charge)		\$	38,729 \$	47,784	23.38%