

PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Milwaukee Water Works, Milwaukee County,
Wisconsin, for Authority to Increase Water Rates

3720-WR-108

FINAL DECISION

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

Introduction

On March 4, 2014, MWW filed an application ([PSC REF#: 199897](#)) with the Commission requesting authority to increase water rates. On March 18, 2014, MWW refiled the application ([PSC REF#: 200646](#)), as requested, in order to remove internal comments inserted by MWW's consultants. MWW requested an increase of \$10,166,287, or 12.8 percent, in water revenues based on an estimated 4.50 percent rate of return on net investment rate base (ROR on NIRB) for retail customers and a 5.50 percent ROR on NIRB for wholesale customers. The filing also included a Cost of Service Study ([PSC REF#: 199899](#)), Rate Design ([PSC REF#: 199898](#)), and Water Main Replacement Report ([PSC REF#: 199900](#)).

Commission staff's initial audit in this proceeding ([PSC REF#: 203768](#)) resulted in an increase of \$6,694,959, or 8.2 percent, in water revenues based on a 4.50 percent ROR on NIRB for retail customers and a 5.50 percent ROR on NIRB for wholesale customers. Commission staff's adjustments included increasing MWW's estimated operating revenues based on rates that became effective June 1, 2014, as authorized in docket 3720-WQ-104.

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On April 30, 2014, the Commission held a prehearing conference ([PSC REF#: 204291](#)) to determine the issues that would be addressed in this docket and to establish a schedule for the hearings ([PSC REF#: 204383](#)).

On May 30, 2014, MWW revised its application and filed a revised Revenue Requirement ([PSC REF#: 205543](#)), Cost of Service Study ([PSC REF#: 205539](#)), and Rate Design ([PSC REF#: 205540](#)). MWW requested an increase of \$9,253,808, or 11.4 percent, in water revenues based on an estimated 5.25 percent ROR on NIRB for retail customers and a 6.25 percent ROR on NIRB for wholesale customers, resulting in an overall 5.38 percent ROR on NIRB. On June 3, 2014, MWW served the live Revenue Requirement–Cost of Service Study–Rate Design Model ([PSC REF#: 205627](#)) on the parties.

On June 25, 2014, the Commission held hearings at the Frank Zeidler Municipal Building in Milwaukee, Wisconsin, for technical issues and public comment.

The Commission considered this matter at its open meeting ([PSC REF#: 218559](#)) on September 11, 2014.

The parties, for purposes of review under Wis. Stat. §§ 227.47 and 227.53, are listed in Appendix A. Others who appeared are listed in the Commission’s files.

Findings of Fact

1. MWW’s presently authorized rates for water utility service will produce operating revenues of \$85,609,675 for the 2014 test year, resulting in an annual revenue deficiency of \$9,253,808. Presently authorized water rates are therefore unreasonable because they fail to produce appropriate revenues for the test year.

2. The estimated net investment rate base applicable to water utility operations for the 2014 test year is \$336,130,621.

3. The estimated ROR on NIRB at current rates for the 2014 test year is 2.62 percent, which is inadequate.

4. It is reasonable to increase MWW's operating revenues by \$9,253,808 for the 2014 test year to produce a 5.38 percent ROR on NIRB for water utility operations.

5. Commission staff's estimated net Payment in Lieu of Taxes (PILOT) expense of \$12,553,145 is reasonable.

6. A reasonable ROR on NIRB for MWW is 5.38 percent with no differential, authorizing 5.38 percent for both wholesale and retail customers.

7. The maximum hour system demand ratio proposed by the Wholesale Customers, which does take into account gravity flows from elevated storage, is approved.

8. The retail customer class demand ratios to be used in this rate case shall be based 50 percent on those used in the last MWW rate case from the 1977 demand study prepared by Black & Veatch and 50 percent on MWW's demand ratios proposed in this proceeding based upon the more recent demand study prepared by Trilogy Consulting.

9. MWW's proposed maximum hour customer demand ratios and MWW's proposed maximum day customer demand ratios shall be approved for the wholesale customer class.

10. It is appropriate to allocate the utility-financed mains in Account 343, Mains, to the transmission and distribution functions using the original cost approach.

11. It is appropriate to allocate a portion of the costs associated with the entire transmission and distribution system, including small distribution mains, to large industrial customers.

12. It is reasonable to accept MWW's revised main replacement program, which replaces 20 miles of main per year by 2020, as a minimal effort, and to include the following additional requirements:

- a. MWW will be required to replace no less than its proposed 15 miles of main in 2015-2017, 18 miles in 2018-2019, and 20 miles in 2020;
- b. MWW will be required to hire an independent consultant to do a main replacement study and to submit a copy of the final report prepared by this consultant to the Commission;
- c. MWW will be required to report to the Commission regarding the condition of its mains; and
- d. MWW will be required to report to the Commission regarding the progress of its main replacement program.

13. It is reasonable to approve MWW's revised financing plan and, further, to put MWW on notice that it may need to issue more debt than the amount proposed in its revised financing plan.

14. It is not necessary to reopen the review of MWW's timeline for its meter replacement plan.

15. A public fire protection (PFP) allocation will not be assigned to any wholesale customer, if that wholesale customer has an adequate distribution system.

16. It is appropriate to authorize the declining block rate design proposed by MWW with respect to its large industrial customers.

17. It is reasonable to exclude an Economic Development Rate (EDR) from MWW's rates.

18. It is reasonable to authorize rates for water service for MWW as shown in Appendix C.

Conclusions of Law

1. MWW 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 MWW to increase water utility rates and revise tariff provisions as set forth in Appendix C, subject to the conditions specified in this Final Decision.

3. The net PILOT expense of \$12,553,143 is appropriate according to Wis. Stat. § 66.0811(2) and Wis. Admin. Code ch. PSC 109.

Opinion

MWW and its Business

MWW provides retail water service to 141,270 customers in the City of Milwaukee and to 15,765 suburban customers, predominantly in the cities of Greenfield and St. Francis and the Villages of Hales Corners and West Milwaukee.

MWW provides wholesale water service to the cities of Greendale, Mequon, New Berlin, Wauwatosa, and West Allis; to the villages of Brown Deer, Butler, Menomonee Falls, and Shorewood; and to the Milwaukee County Institutions.

Revenue Requirement

Net Investment Rate Base

The estimated net investment rate base for the 2014 test year is as follows:

Utility Financed Plant in Service	\$543,542,307
Less: Accumulated Provision for Depreciation	<u>\$202,304,090</u>
Net Plant in Service	\$341,238,217
Plus: Materials and Supplies	\$2,600,000
Less: Regulatory Liability for Pre-2003 Accumulated Depreciation - CIAC	<u>\$7,707,596</u>
Net Investment Rate Base	<u>\$336,130,621</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	\$85,609,675	\$9,253,808	\$94,863,483
Operating Expenses:			
Oper. & Maint. Exp.	\$49,028,671		\$49,028,671
Depreciation	14,109,432		14,109,432
Taxes & Tax Equiv.	<u>13,656,828</u>		<u>13,656,828</u>
Total Oper. Expenses	<u>\$76,794,931</u>		<u>\$76,794,931</u>
Oper. Income (or Loss)	<u>\$8,814,744</u>		<u>\$18,068,552</u>
Rate of Return	2.62%		5.38%

The depreciation expense included in the revenue requirement for the 2014 test year was computed using the depreciation rates shown in Appendix E. These depreciation rates are

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effective on January 1, 2014, for computing the depreciation expense on the average investment for each plant account.

Payment in Lieu of Taxes (PILOT)

MWW agreed with Commission staff's estimate of \$12,553,145 for the net PILOT expense, as calculated according to Wis. Admin. Code §§ PSC 109.01 and PSC 109.02 ([PSC REF#: 205675](#) at 13). The Wholesale Customers took no position on whether the proposed PILOT payment was reasonable, but believed that the payment of the PILOT should be a factor in evaluating a reasonable ROR on NIRB. MillerCoors LLC was concerned that the proposed PILOT expense is significantly greater than the level of the gross receipts tax paid by investor-owned water utilities ([PSC REF#: 205708](#) at 8).

The \$12,553,145 payment required by the city of Milwaukee is calculated per Wis. Stat. § 66.0811(2) and falls below the maximum limit defined in Wis. Admin. Code § PSC 109.02. Since the payment authorized by the city of Milwaukee is in accordance with the relevant statute and code, the charge is legal. As such, the Commission finds it reasonable to include the estimate of \$12,553,145 for the PILOT expense in the revenue requirement for MWW.

Water Main Replacement Program

In the previous full rate case, docket 3720-WR-107, the Commission directed MWW to “study its transmission and distribution main replacement rate and to file a report with recommendations in conjunction with its next rate case.” Water industry experts readily acknowledge that our country contains a large amount of aging water infrastructure. Wisconsin is no exception. Evidence presented in this proceeding shows that those wholesale communities served by MWW of similar age are also experiencing similar increasing amounts of lost water

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and increasing numbers of main breaks, leading to the need to spend increasing amounts on main replacements ([PSC REF#: 207096](#)).

MWW supported replacing only 15 miles per year using cash financing. MWW Superintendent Carrie Lewis supported that position by stating that MWW is making investments in infrastructure using the financing method approved by its elected officials. On August 13, 2014, MWW sought, and was allowed, to enter Ex.-MWW-Lewis-28 into the record ([PSC REF#: 213704](#)). This revised exhibit proposed to replace 15 miles of main in 2015-17, 18 miles in 2018-2019, and 20 miles in 2020. The associated affidavit ([PSC REF#: 213703](#)) of MWW Superintendent Carrie Lewis explained that recent bids for main replacements showed cost increases of 30 percent. She said she worked on a revised funding plan with the city of Milwaukee Budget Office, which proposes to issue \$92 million in debt by 2020 in order to fund this quantity of main replacements.

This decision to use debt is a departure from MWW past practices of restricting main replacement to only the amount that could be financed with cash. This policy created a limitation that significantly delayed MWW's main replacement efforts. Since the last rate case, MWW reduced the amount of its main replacement to only about 2 miles per year for 2010 to 2012 due to its cash funding constraints ([PSC REF#: 205728](#) at 12, 16). MWW reduced its main replacement effort in 2010 because its rate increase request, filed in September 2009, took longer to process than it expected and provided a lower rate increase than it had requested. MWW has the financial strength to be able to issue debt to meet its long-term infrastructure needs.

Specific facts obtained in this case begin to quantify the magnitude of upcoming main replacements that will be needed for MWW to assure safe, reliable, good quality water service. The facts demonstrate the importance of MWW following through with its commitment in Ex.-MWW-Lewis-28 ([PSC REF#: 213704](#)) and documenting its infrastructure needs so it can be responsive to those infrastructure needs.

MWW has a total of 1,961 miles of main. The Commission's depreciation rate for mains is based on a 77-year life. This means that based on an average life of 77 to 100 years, MWW must replace between 20 to 25 miles of main every year to ensure mains do not exceed their useful life ([PSC REF#: 205728](#) at 12). MWW's proposal to replace 20 miles of main annually by 2020 will bring MWW's main replacement program up to about one percent per year. However, further consideration also needs to be given to the current condition of MWW's mains.

MWW has 843 miles of main that were installed between 1880 and 1943 (pre-World War II) that have a remaining life of 54 years. Using this information, Commission staff computed that it will require at least 15.6 miles of main to be replaced each year to upgrade this vintage of main by the end of its remaining life. MWW also has 431 miles of main installed between 1943 and 1963 (post-World War II). This post-World War II main is in worse condition than the pre-World War II main. MWW identified that this vintage of main is expected to have a remaining life of 34 years. Commission staff computed that it will require 12.7 miles of main to be replaced each year to upgrade this vintage of main by the end of its remaining life. Applying simple straight-line calculations, MWW would need to replace about 28 miles of main per year to upgrade each vintage of main by the end of their respective remaining lives as identified in MWW's Water Main Replacement Report ([PSC REF#: 199900](#)), which was filed with this rate

application. While it is helpful that MWW plans to increase its main replacement rate to one percent per year by 2020, this rate of replacement is not likely to be sufficient to meet MWW's upcoming infrastructure replacement needs.

The record contained further data regarding MWW's actual experience with its main breaks. MWW provided the list that it maintains of sections of main that are still in the ground that have experienced one or more main breaks ([PSC REF#: 207097](#)). That list was 70 pages long. MWW's main replacement budget of \$10 million for 2014 was only expected to replace about one page of the 70 pages of sections of main with one or more breaks ([PSC REF#: 206291](#) at 6). Further, each year, new breaks will occur which will add to the list. This expected amount of main replacements was based on an estimated cost of \$1 million per mile of main replaced and was made before the more recent cost of estimate of \$1.3 million to replace one mile of main.

MWW maintains another a list of breaks on existing mains with the date of occurrence, location, and condition of each brake for main that is still in the ground. That list was 230 pages long ([PSC REF#: 207100](#)). The Commission would like to see MWW increase its pace of main replacements such that the list of mains eligible for replacement starts to decline and does not further expand significantly.

Mains are expected to follow a natural random pattern of deterioration ([PSC REF#: 206715](#) at 3). Main survival curves are typically "S" shaped, where the replacement rate moves fairly slowly between the initial installation and the time when the first 18 percent are replaced. The replacement rate will peak somewhere between when 18 and 82 percent of the main is replaced. Currently, MWW has replaced 18.3 percent of the pre-World War II vintage main and

28.3 percent of the post-World War II vintage of main. This means that main replacements will likely need to accelerate compared to the replacement rate over the last several years.

Of greater concern is the fact that MWW experienced 82 main breaks between May 17, 2014, and May 22, 2014, associated with shutting down the Howard Avenue Treatment Plant and associated sole reliance on the Linnwood Treatment Plant, which required higher water pressure exiting the Linnwood Plant ([PSC REF#: 205728](#) at 17). Experiencing 82 main breaks in less than a week is highly unusual, as typically MWW experiences about 550 main breaks each year (PSC REF#: 207096). Commission staff presented this information to further demonstrate the concern that deferred maintenance can lead to possible catastrophic failures and/or future rate shock.

A public utility is required to furnish reasonably adequate service and facilities (Wis. Stat. § 196.03). The Commission has jurisdiction to supervise and regulate every public utility in this state and to do all things necessary and convenient to its jurisdiction (Wis. Stat. § 196.02(1)). If the Commission finds that any service is inadequate, it is the Commission's duty to determine and issue a just and reasonable order relating to practices to be followed in the future to assure adequate service is provided (Wis. Stat. § 196.37). The evidence in this record provided a high level overview of MWW's main replacement program. The Commission accepts MWW's revised proposal. However, based on the evidence described above, the proposal represents the minimum amount of work that will be needed. It is likely that MWW will need to expand its main replacement efforts above its proposed levels. The retention of an independent consultant to evaluate MWW's main break records and to provide an estimate of the utility's upcoming capital needs for main replacement efforts may provide MWW with valuable insight and

assistance as it faces this challenging phase in the life cycle of water utility infrastructure and develops its plans for the future. Given the scope of the work ahead, it is reasonable for the Commission to take extra measures to ensure that MWW's revised plan is implemented and to take further measures to ensure MWW develops an adequate long-term main replacement program. Accordingly, the Commission requires the following:

1. MWW shall replace at least as many miles of mains as it proposed in Ex.-MWW-Lewis-28 ([PSC REF#: 213704](#)) which is to replace 15 miles of main in 2015-2017, 18 miles in 2018-2019, and 20 miles in 2020;

2. MWW shall hire an independent consultant to do a main replacement study using MWW's main break records to provide an estimate of the utility's capital needs for main replacements. MWW shall submit a copy of the final report prepared by this consultant to the Commission;

3. MWW shall report to the Commission regarding the condition of its mains, by every six months providing the Commission copies of the most current versions of the main break reports described above; and

4. MWW shall report to the Commission regarding the progress of its main replacement program, by setting objectives that are consistent with the current condition of its mains and reporting its progress in achieving those objectives in each rate case.

Water Main Replacement Funding

Initially, MWW proposed to cash finance all main replacements ([PSC REF#: 205675](#) at 17). Commission staff testified about factors affecting cash financing ([PSC REF#: 205728](#) at 17). Commission staff testified that for small water systems that are primarily constructed

over just a few years, it is not reasonable to finance construction through current rates as recovery would fall very heavily on current customers and provide a benefit to later customers that would not be included in their rates, thereby creating intergenerational inequities. It may be possible for a large water utility to finance main replacement from current rates if those mains were originally installed over an extended period of years, and are not failing or reaching the end of useful life simultaneously.

Commission staff computed that MWW should be able to cash finance \$22 million per year with cash generated from depreciation and a ROR on NIRB of 5.38 percent, allowing for current debt service and the meter replacement program ([PSC REF#: 205728](#) at 18-19). At the cost of \$1.3 million per mile, this will provide a replacement rate of about 17 miles per year, if all other construction was financed with debt. Using the assumption that main would cost \$1 million for each mile of main replaced, Commission staff also computed that MWW would need a 7.3 percent ROR on NIRB to cash finance its main replacements ([PSC REF#: 206715](#) at 3). The needed ROR on NIRB to provide for cash financing would be even greater in light of the current higher cost estimates. As explained above, MWW will need to fund at least 28 miles of main per year for at least the next 34 years based on the current condition of MWW's mains.

The fundamental problem has been that MWW has not made steady annual investments in main replacements ([PSC REF#: 206291](#) at 7). Only between the years 2006 to 2009, did MWW replace close to one percent of its mains. Except for those years, MWW has replaced far less than one percent of its main since at least 1972. MWW needs to catch up from deferred main replacements. While MWW is a large water utility that has installed main of varying ages,

cash financing becomes particularly difficult when a utility has not replaced a consistent number of miles of main each year.

The record contained evidence both for and against cash financing of main replacements. The Wholesale Customers pointed to MWW's low level of debt, which is only 7.8 percent of its total capital structure ([PSC REF#: 205715](#) at 16). They stated that greater reliance on debt in the near-term could reduce near-term increases for all parties while still enabling MWW to reinvest in its system ([PSC REF#: 205715](#) at 21). They noted the minimal debt in MWW's current capital structure would allow MWW to generate funds for infrastructure investment.

Initially, MWW opposed using debt funding for annual rehabilitation of mains ([PSC REF#: 205689](#) at 10, [PSC REF#: 206309](#) at 14), but submitted a revised main replacement plan and a revised funding plan that proposes to issue \$92 million in debt by 2020 for funding. The Commission accepts that revised financing plan.

Commission staff testified that if MWW issued \$100 million in debt, MWW's total debt would be 27.65 percent of its total capital structure ([PSC REF#: 206715](#) at 5). This capital structure should continue to provide MWW with the financial integrity that will allow further access to capital markets for additional funding of infrastructure investments.

While the Commission's ratemaking provides municipal water utilities a great deal of latitude in selecting their financing methods, the Commission must balance equity to current rate payers and intergenerational equity when financing infrastructure. Because MWW's funding needs are likely to be greater than its proposed \$92 million in debt and it appears to have ample future bonding capacity, it is reasonable for the Commission to advise MWW that it may need to

issue more debt than the amount proposed in its revised financing plan in order to meet its upcoming infrastructure replacement needs.

Financial

Capital Structure and Return on Net Investment Rate Base

MWW initially filed its application on March 4, 2014, requesting a composite ROR on NIRB of 4.63 percent, consisting of a 5.50 percent ROR on NIRB for wholesale customers and a 4.50 percent ROR on NIRB for retail customers ([PSC REF#: 199897](#), Attachment 14). On May 30, 2014, MWW accepted all of Commission staff's proposed revenue requirement adjustments, but it increased its requested composite ROR on NIRB to 5.38 percent, consisting of a 6.25 percent ROR on NIRB for wholesale customers and a 5.25 percent ROR on NIRB for retail customers ([PSC REF#: 209485](#) at 69, [PSC REF#: 205689](#) at 9). The Wholesale Customers proposed that the Commission should authorize a 3.55 percent ROR on NIRB using an assumed capital structure ([PSC REF#: 205715](#) at 21).

Commission staff provided testimony that explained the mechanics and rationale of the Commission's guidelines for a water benchmark ROR on NIRB ([PSC REF#: 205728](#) at 1-10). Commission staff testified that the benchmark ROR on NIRB was 6.25 percent at the time MWW filed its application. The guidelines' upper boundary is the current cost of 30-year municipal bonds (approximately 4.25 percent) plus 200 basis points, and the lower boundary assures debt service coverage is adequate and provides at least 1.5 times interest coverage or 1.25 times cash flow to total debt service. Using these guidelines for MWW, the upper boundary is 6.25 percent. Debt service coverage is adequate. Commission staff testified that the benchmark ROR on NIRB meets the requirement of Wis. Stat. § 66.0811 that municipal utilities

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are entitled to the same ROR on NIRB as permitted for privately-owned companies and will maintain confidence in the utility's financial integrity.

Commission staff testified that MWW's capital structure consists of 92.20 percent equity and 7.80 percent debt. MWW's embedded cost of debt is 3.27 percent ([PSC REF#: 205728](#) at 2). Commission staff testified that the Commission's benchmark ROR on NIRB is capital structure neutral. Commission staff testified that regardless of whether MWW capital structure consists of 90 percent debt or 90 percent equity, the revenue requirement would be the same ([PSC REF#: 205728](#) at 7). This is because the Commission's benchmark ROR on NIRB is applied to rate base.

The Wholesale Customers presented testimony that MWW's debt to equity ratio is exceptionally low and is atypical relative to most other Wisconsin water utilities and relative to most major U.S. metropolitan water utilities. The Wholesale Customers asserted that where MWW has so little debt, the vast majority of the return on NIRB is available to the city of Milwaukee as the owner of the utility.

The Wholesale Customers proposed that the Commission should authorize a 3.55 percent ROR on NIRB, which would add \$11.93 million to MWW revenue requirement, whereas MWW's proposed 5.38 percent ROR on NIRB adds \$18.07 million to the revenue requirement ([PSC REF#: 205715](#) at 18-21).

MWW identified that its composite requested ROR on NIRB was below the Commission benchmark ROR on NIRB and was consistent with the Commission's historical guidelines for establishing a reasonable ROR on NIRB. The net \$16 million generated will be reinvested in the utility and will allow MWW to maximize its main replacement efforts without having to issue

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debt ([PSC REF#: 206767](#) at 8). The requested ROR on NIRB is consistent with those authorized for other Class AB Wisconsin utilities ([PSC REF#: 206309](#) at 12-13). MWW requested that if the Commission should decide against the higher ROR on NIRB for wholesale customers, the Commission should increase the overall ROR on NIRB to 6.25 percent.

Commission staff testified that the Wholesale Customers used the 5.38 percent incorrectly in its calculations. A Wisconsin utility with 50 percent equity would earn a 7.49 percent return on equity and not 5.38 percent as was assumed in the Wholesale Customers' calculation ([PSC REF#: 206291](#) at 2). Also, \$25 million in additional debt would not bring MWW up to 50 percent debt ([PSC REF#: 206715](#) at 5). This means the Wholesale Customers' proposal would eliminate a large portion of MWW's capital and would provide a return on the remainder that is less than the amount the Commission would authorize using its benchmark guidelines.

The Commission authorizes the 5.38 percent ROR on NIRB. The Commission determines that it is not appropriate to focus on the absolute dollar amount that is included in revenue requirement to provide a reasonable ROR on NIRB. A utility with a large amount of rate base will have raised a large amount of capital to support that investment. The Commission must provide a reasonable return on investment. The Commission also determines that regardless of whether there is a differential ROR on NIRB between the retail customers and wholesale customers, the requested 5.38 percent ROR on NIRB is reasonable.

In determining a reasonable ROR on NIRB, the Commission must balance the needs of investors, the needs of consumers, the principle of gradualism when making rate changes, the yields for 30-year municipal bonds, MWW's capitalization, the adequacy of debt service

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coverage, the proposed PILOT, MWW's excess capacity, and applicable statutory requirements. Based on these competing considerations, a composite ROR on NIRB of 5.38 percent is reasonable because the requested 5.38 percent ROR on NIRB will be adequate for MWW to pursue its revised main replacement program and meet its debt service requirements, and it is consistent with the ROR on NIRB authorized for other Class AB water utilities in Wisconsin.

Differential Return Between Retail and Wholesale Water Sales

MWW requested a composite 5.38 percent ROR on NIRB, consisting of a 6.25 percent ROR on NIRB for wholesale customers and a 5.25 percent ROR on NIRB for retail customers ([PSC REF#: 205689](#) at 9).

Commission staff testified regarding the guidelines staff auditors follow when evaluating a differential ROR on NIRB and the history of the Commission's decisions regarding a differential ([PSC REF#: 205728](#) at p. 8-11). The current guidelines are that the wholesale ROR on NIRB should be no more than the benchmark ROR on NIRB, and the lower ROR on NIRB to retail customers needs to provide at least 1.5 times interest coverage and 1.25 times debt service coverage to assure that the utility would have sufficient monies to meet its financial obligations.

Commission staff provided a history of the Commission decisions on a differential ROR on NIRB. In docket 3720-WR-106, MWW did not seek any differential. In docket 3720-WR-107, MWW sought a 150 basis point differential, and the Commission allowed a 100 basis point differential. Following the Final Decision ([PSC REF#: 185284](#)) in docket 3720-WR-107, the Commission authorized a 180 basis point differential in a rate case for Oak Creek in 2013, stating that it found no compelling reason to place further limitations on its historic guidelines. The Commission did not allow a differential ROR on NIRB in a rate case for

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Kenosha later in 2013 ([PSC REF#: 188160](#)) in which it determined that the wholesale customer, Pleasant Prairie, was a captive customer.

The Wholesale Customers stated that MWW's request for a higher ROR on NIRB for wholesale customers should be denied. The Wholesale Customers noted that it appeared that the Commission's evaluation criteria for a differential ROR on NIRB had changed since MWW's last rate case in docket 3720-WR-107. They interpreted the Final Decision in Kenosha's 2013 rate case in docket 2820-WR-106 ([PSC REF#: 188160](#)) to mean it is no longer enough that a wholesale water supplier wishes to lower its ROR on NIRB to its retail customers; the requesting utility must demonstrate an enhanced risk. The Wholesale Customers provided testimony that it is not common in Wisconsin for a municipal wholesale water supplier to charge wholesale customers a differential ROR on NIRB. Only 3 of the 28 wholesale supplying utilities charge a higher ROR on NIRB to wholesale customers ([PSC REF#: 208214](#) at 8-9).

The Wholesale Customers contended that, even if they left the system, they would not be the cause of any stranded investment for MWW; it has been MWW's industrial customers that left or reduced their water use. MWW's wholesale customers are helping pay for large amounts of excess capacity that has been left behind ([PSC REF#: 206324](#) at p. 3-4). In addition to sharing in the cost of significant excess capacity, the wholesale customers also share in MWW's non-revenue water, including water used to fight fires, and fund payment of PILOT that only benefits inside-city customers. The Wholesale Customers did not ask for any adjustments to reflect the fact that they share in costs for which they receive no benefit, but they did ask that they not be charged an additional ROR on NIRB.

MWW argued that the Commission should authorize its requested differential ROR on NIRB. The differential would be consistent with past precedence of this Commission. MWW identified a number of risk factors, such as the need to have sufficient working capital on hand and the potential for sudden major expenses ([PSC REF#: 206309](#) at 2-9). The Wholesale Customers identified that MWW would have such risks regardless of whether it served wholesale customers ([PSC REF#: 208214](#) at 8-9). MWW was also concerned that Shorewood, which is MWW's seventh-largest wholesale customer, is considering changing to another water supplier ([PSC REF#: 206738](#) at 7-9). While this may be a risk factor, charging a higher return to Shorewood would not minimize this risk. The Commission agrees with MWW that the city of Milwaukee's receipt of the statutorily-authorized PILOT is not relevant to the reasonableness of continuing the differential ROR on NIRB.

The Commission notes that with each new case in which it is presented with a record regarding whether a differential ROR on NIRB between retail and wholesale is reasonable, it has received more information and, in particular, more company-specific information. Accordingly, past decisions which did not consider this new information have limited usefulness to the Commission's decision in this case. The Commission determines that there should not be a differential ROR on NIRB between retail customers and wholesale customers for MWW because MWW's system was not sized to serve wholesale customers. The presence of wholesale customers has partially helped MWW close its revenue gap created by the loss of retail load. In this manner, the wholesale customers do not present any greater risk to serve. The Commission observes, that with its excess capacity, it would be helpful if MWW could expand its customer base. In these circumstances, treating customers equally would make more sense in capturing

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new load. In light of the importance of company-specific information, the Commission also determines that any case in which a utility proposes a differential ROR on NIRB should be brought to the Commission and not be delegated to the Division Administrator.

Commissioner Callisto dissents on the decision to deny the differential rate of return and writes separately (see attached).

Cost of Service Study

MWW submitted for the record a final analysis of the cost of supplying water for general service, wholesale service, and PFP service, based on the Commission's decisions on the contested issues. MWW 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 MWW's Updated Cost of Service Study–Rate Design Model ([PSC REF#: 222194](#)). Appendix B shows customer class revenue requirements resulting from the cost analysis compared with revenues at authorized rates.

Maximum Hour System Demand Ratio

System demand ratios allocate utility operating expenses between the cost functions of base water consumption and extra capacity demand. Extra capacity demand may be subdivided into maximum day extra demand and maximum hour demand in excess of maximum day. The maximum day system demand ratio is the maximum day demand divided by the average day demand. The maximum hour system demand ratio is the maximum hour demand divided by the average hour demand.

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The maximum day system demand ratio of 1.38 for MWW, which is maximum day demand of 148,348,333 gallons divided by average day demand of 107,165,571 gallons, based on a six-year average (2007-2012), is not at issue in this case ([PSC REF#: 205627](#), Schedule 4).

In its cost of service study ([PSC REF#: 205627](#), Schedule 4), MWW's maximum hour demand for purposes of calculating its system maximum hour demand ratio is 6,875,000 gallons. The maximum hour system demand ratio of 1.54 for MWW, which is the maximum hour demand of 6,875,000 gallons divided by average hour demand of 4,465,232 gallons, is based on a six-year average (2007-2012) of its maximum hour pumpage from the MWW water plants ([PSC REF#: 205627](#), Schedule 4). This is the same calculation method used in the last MWW rate case in docket 3720-WR-107 ([PSC REF#: 205691](#) at 5).

The Wholesale Customers argued that gravity flows into the MWW system from MWW's elevated storage tanks should be included in the determination of MWW's maximum hour system demand. They requested flow and level data for July 2012 and determined that maximum hour demand in the MWW water system occurred on July 16, 2012, at 8:00 p.m., with total maximum hour demand of 207.8 mgd (million gallons per day), which equates to approximately 8,658,000 gallons, which results in a higher maximum hour demand ratio than what was proposed by MWW by using only the maximum hour pumpage from the water plants ([PSC REF#: 206323](#) at 12-13).

MillerCoors LLC indicated that MWW should base its maximum hour system demand ratio on customer usage/system design parameters ([PSC REF#: 205708](#) at 15-17), but offered insufficient facts for the Commission to consider.

The Commission agrees with the Wholesale Customers that the maximum hour system demand ratio calculation should take into account gravity flows from elevated storage. Water from elevated storage is used to meet maximum hour demands. MWW's distribution system carries water from both MWW's water plants and from its elevated storage during maximum hour periods. MWW is a large, sophisticated utility and can supply that data in this case. The amount of water pumped into elevated storage during the maximum hour demand should be netted against the gravity flows from elevated storage.

Retail Customer Class Demand Ratios

Customer class maximum day demand ratios estimate the relationship between a customer class's average annual demand and its extra demand during the system peak day. Customer classes with higher maximum day demand ratios are allocated a greater portion of the maximum day extra capacity cost function. Customer class maximum hour demand ratios estimate the relationship between a customer class's average annual demand and its extra demand during the system peak hour. Customer classes with higher maximum hour demand ratios are allocated a greater portion of the maximum hour extra capacity cost function.

In MWW's last rate case, docket 3720-WR-107, Commission staff proposed revisions to maximum hour demand ratios that were based on a 1977 study prepared by Black & Veatch. The ratios derived from the 1977 study had been used in previous MWW cost of service studies. In docket 3720-WR-107, Commission staff proposed retail customer class maximum hour demand ratios that were based on an average of the maximum hour demand ratios for similar-sized utilities. The Commission finds that it is more reasonable to determine MWW customer class demand ratios from information specific to MWW than from a comparison with

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other utilities. It further finds it reasonable to retain the previous maximum hour customer class demand ratios until MWW is able to provide better data to support revisions to maximum hour demand ratios ([PSC REF#: 144469](#)).

MWW retained Trilogy Consulting to conduct a Customer Demand Study that would develop customer demand ratios based on data specific to MWW's service area ([PSC REF#: 204119](#)). Here, the question is whether MWW should be allowed to use maximum hour and maximum day retail customer demand ratios based on the Trilogy Consulting Customer Demand Study or whether to continue to use maximum hour demand ratios that were based on a 1977 study prepared by Black & Veatch. The record in this rate case includes extensive discussion about the merits and shortcomings of both studies.

MWW contended that the Trilogy Consulting Customer Demand Study is more representative of current customer demand patterns than either the 1977 study or a comparison with similar-sized utilities. The Wholesale Customers proposed weighting the 1977-derived ratios at 80 percent and the Trilogy Consulting Demand Study-derived ratios at 20 percent ([PSC REF#: 212556](#) at 5). MWW contended that the Wholesale Customers' proposal was unreasonable, and the outdated and flawed 1977 study should no longer be considered at all ([PSC REF#: 206754](#)).

The Wholesale Customers argued that the purpose of defining demand ratios is not to examine changes in demand patterns over time, but rather to determine relative responsibilities for peak periods across customer classes ([PSC REF#: 206324](#) at 8). They argued that MWW's proposed ratios based on Trilogy's flawed data collection do not fairly reflect each customer class's relative contribution to system demand peaks ([PSC REF#: 205715](#) at 4-10). The

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Wholesale Customers further argued that the demand ratios based on the 1977 study were previously approved by the Commission, are comparable to those of other larger Wisconsin water systems, and are reasonable. The Wholesale Customers believed they proposed a reasonable compromise of revised demand factors based 80 percent on current demand factors and 20 percent on MWW's proposed demand factors, with recommendations for additional data collection. The low weighting to the Trilogy Consulting study would provide an incentive for MWW to improve it ([PSC REF#: 212556](#) at 4-6).

MillerCoors LLC recommended an approach that would look at future customer demand and system design parameters, but offered no specific method for deriving demand ratios based on this approach ([PSC REF#: 206275](#) at 4-5).

Trilogy Consulting pointed out many inadequacies of the 1977 study prepared by Black & Veatch ([PSC REF#: 206754](#) at 3-6, [PSC REF#: 205694](#) at 2). The study from 1977 reflected a very different time period with customer usage patterns that do not reflect the modern water saving technologies that exist today. The ability to collect continuous hourly and daily data, such as that recorded by Trilogy Consulting, did not exist in 1977. The sample sizes included in the Black & Veatch study were even more limited than those which the interveners now claim to be inadequate. The 1977 sample set did not capture maximum day data. In addition, the 1977 study did not consider customer classes as a whole. This deficiency is important, as when one adds together a group of customers that peak at different times, there is a very strong muting effect on the demand of the group as a whole. The 1977 study looked only at averages of individual customers.

Supporting the fact that water usage patterns have changed dramatically since 1977, MWW reported that in 1977, MWW sold 54.7 billion gallons of water compared to 2010, when MWW sales had declined to 32.4 billion gallons of water ([PSC REF#: 205675](#) at 5). Commission staff provided testimony about changes in usage patterns and customer mix over this time period ([PSC REF#: 206714](#) at 2, [PSC REF#: 210390](#) at 156-160). Both the new Trilogy Consulting Customer Demand Study and the 1977 Black & Veatch study have merits and shortcomings, and neither study is clearly preferable for use in developing retail customer demand ratios. However, water consumption patterns for retail customers in Milwaukee have changed since 1977. New metering technology enabled Trilogy Consulting to collect large amounts of hourly and daily data which are specific to Milwaukee and more current than 1977 data. The Wholesale Customers did raise significant concerns about the many adjustment mechanisms Trilogy Consulting used in analyzing the data it collected. There are difficulties inherent in conducting any study based on large-scale demand metering ([PSC REF#: 206771](#) at 20). Accordingly, the Commission determines that it is reasonable to use maximum day and maximum hour retail customer demand ratios that are based 50 percent on the 1977 study prepared by Black & Veatch and 50 percent on those derived from Trilogy's Customer Demand Study. This decision will move toward demand ratios that better reflect current water consumption patterns and also provide incentives for MWW to improve upon the Trilogy Consulting Customer Demand Study.

The Commission directs MWW to work cooperatively with the wholesale customers, Commission staff, and other interested stakeholders to develop a mutually agreed-upon methodology for revising retail customer demand ratios for use in future cost of service studies.

Wholesale Customer Class Demand Ratios

In MWW's last rate case, docket 3720-WR-107, wholesale customers' maximum day demand ratios were based on data provided by the wholesale customers and averaged over a three-year period. Each wholesale customer's maximum hour demand ratio was then derived by multiplying the maximum day demand ratios by 1.43 ([PSC REF#: 146073](#), Schedule 9).

In conducting the Customer Demand Study for MWW ([PSC REF#: 204119](#)) in this rate case, Trilogy Consulting analyzed daily and hourly wholesale customer data collected by MWW over a two-year period. The study developed the maximum day and maximum hour wholesale customer demand ratios used in MWW's cost of service study.

The record in the current rate case includes extensive discussion about the merits and shortcomings of the Customer Demand Study. While MWW and its Wholesale Customers agreed that MWW's proposed maximum hour demand ratios should be used, the Wholesale Customers requested that, in future rate cases, the Commission require that maximum hour ratios be based on six years of data and that the Commission approve maximum day demand ratios that are based on a six-year average of internal pumping records from Commission annual reports for the current rate case ([PSC REF#: 205719](#) at 8-13). The Wholesale Customers asserted that a six-year average lessens the impact of atypical weather years and is consistent with the methodology used for developing system peak demand ratios. MWW contended that using actual daily data collected in 2012 and 2013, which had weather patterns that were both higher and lower than the average year, allows for development of peak demand ratios in a typical year and reflects more accurately the actual demands wholesale customers place on Milwaukee's system ([PSC REF#: 206297](#) at 3-8 and 10-11, [PSC REF#: 209963](#) at 6).

MillerCoors LLC recommended an approach that would look at future customer demand and system design parameters, but offers no specific method for deriving demand ratios based on this approach ([PSC REF#: 206275](#) at 4-5).

The Commission approves the use of MWW's proposed maximum day and maximum hour wholesale customer demand ratios. As MWW and the Wholesale Customers are in agreement on MWW's maximum hour wholesale customer demand ratios, this is essentially an uncontested issue. While the Wholesale Customers prefer using a six-year average of pumpage data to develop maximum day wholesale demand ratios, the Commission determines that data based on daily metered use of water purchased directly from Milwaukee and collected over two years in the Trilogy Consulting study provides a better basis for developing wholesale customer demand ratios.

Allocation of Water Main Costs to Transmission and Distribution

The allocation of water main costs between the transmission and distribution functions is especially important in cases, such as this, where the water utility provides wholesale water service because wholesale customers share in the costs of transmission mains but not in the costs of distribution mains. The two methods proposed for making that allocation in this case are the "inch-feet method" (main length multiplied by main diameter) and the "original cost method."

MWW ([PSC REF#: 205691](#) at 5-7) and MillerCoors LLC ([PSC REF#: 206275](#) at 8-9) argued that inch-feet is the more equitable method of allocating main costs because it better correlates the investment in mains to the customer demands that specific sized mains are required to meet. The purpose of allocating utility-financed mains is to appropriately allocate depreciation and return on NIRB which are used to provide funding for the eventual

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rehabilitation and replacement of mains. In contrast, the original cost method fails to recognize that water main costs are subject to inflationary pressures and may not truly reflect the current costs of main replacement.

The Wholesale Customers argued that the allocation of costs should be based on actual data ([PSC REF#: 205719](#) at 4-8). Only if actual cost data is not available should an approximation methodology be used to allocate costs. MWW's approximation methodology shifts costs to the Wholesale Customers which they did not cause MWW to incur.

In MWW's last rate case, docket 3720-WR-107, the Commission used actual transmission and distribution main asset values for water main cost allocation ([PSC REF#: 144469](#)). Distribution mains are small mains that serve individual MWW retail customers, whereas transmission mains are generally larger mains that are assumed to serve all customers. The wholesale customers have their own distribution mains and do not directly benefit from MWW's distribution mains. Additionally, distribution mains are often newer than the transmission mains. Using the inch-feet method would shift some of the costs incurred to serve only retail customers to wholesale customers. Because actual cost data is available and the Commission used this methodology in MWW's previous rate case, the Commission concludes that the original cost method should be used to determine allocation of transmission and distribution costs.

Small Diameter Mains

MWW contended that large industrial customers benefit from the entire transmission and distribution system and, therefore, should be allocated a portion of the costs associated with the entire system, including small distribution mains ([PSC REF#: 206738](#) at 10-11). MWW

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proposes that large industrial customers continue paying costs associated with the entire distribution network, while wholesale customers continue paying no costs associated with the distribution network.

MillerCoors LLC argued that large industrial customers receive the same negligible, if any, benefit from small distribution mains as do municipal wholesale customers. Large industrial and wholesale customers should be treated alike, whether that means they pay for costs associated with all, some, or none of the distribution network ([PSC REF#: 206275](#) at 9-12).

This was also an issue in MWW's last rate case, docket 3720-WR-107. In that case, the Commission found that large customers receive at least an indirect benefit from smaller distribution mains and concluded that separating customers based on size would add to the complexity of the cost of service study without significantly improving its accuracy or fairness ([PSC REF#: 144469](#)).

The Commission affirms its determination that large retail water customers like MillerCoors LLC benefit, albeit indirectly, from the system redundancy and the potential for backup supply provided by the smaller mains if something were to take the larger mains out of service. Therefore, it is reasonable to allocate a portion of the costs associated with the entire transmission and distribution system, including small distribution mains, to large industrial customers.

Water Meter Replacement Project

At the Commission's open meeting of March 14, 2014, the Commission directed Commission staff to review MWW's progress on its water meter replacement project as part of this rate case ([PSC REF#: 200852](#)). The Commission identified MWW's meter replacement

program as a priority to address inaccurate billing, customer complaints, and noncompliance.¹ Commission staff presented testimony that MWW had made adequate progress in replacing meters ([PSC REF#: 205729](#) at 2-5). MWW has worked with the Commission to develop an appropriate meter replacement program and has followed the program to date, reporting its progress semiannually to the Commission ([PSC REF#: 205729](#) at 4-5).

MillerCoors LLC argued that MWW is replacing meters much faster than the meters' 20-year economic life and that the Commission should order MWW to more thoroughly justify its significant investment in meters ([PSC REF#: 205708](#) at 9).

The Commission finds that the investment in meters, including the agreed upon timeline, is justified in light of the costs and benefits to ratepayers. The Commission will not reopen review of MWW's timeline for its meter replacement program and will continue to require semiannual progress reports from MWW.

Public Fire Protection Allocation to Wholesale Customers

MWW originally proposed allocating PFP in the same manner as the last rate case, docket 3720-WR-107 ([PSC REF#: 206316](#) at 1-8). The Wholesale Customers claimed that some of the wholesale communities have adequate distribution systems to meet their own maximum day plus fire flow requirements and, therefore, should not be allocated a separate PFP charge ([PSC REF#: 205713](#) at 3-5). The Wholesale Customers suggested that the criteria used by the

¹ In 2010, Commission staff had received multiple informal complaints from MWW customers involving back bills for estimated usage. (See, e.g., the Final Decision in the Learsi docket, 3720-134846, served on March 24, 2014 ([PSC REF#: 200946](#).) Commission staff investigated and found instances in which MWW had been estimating usage for more than three consecutive billing cycles. The review uncovered that the batteries in the electronic read transmitters (ERTs) were failing. Commission staff and MWW agreed the utility would start a project to replace the ERTs as well as the meters.

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Commission in docket 4310-WR-104 ([PSC REF#: 192349](#)) be used to determine whether a specific community should or should not receive a PFP allocation. Those criteria are:

1. The wholesale customer has the capability to meet its maximum day plus fire flow based on its own distribution storage.
2. The wholesale supplier cannot provide maximum day plus fire flow to the wholesale customer.
3. There exists contractual limitations to the wholesale supplier's ability to provide maximum day plus fire flow.
4. There exists technical limitations (i.e., flow control devices) to the wholesale supplier's ability to provide maximum day plus fire flow.

The Commission finds that the criteria above are reasonable to determine whether PFP should be allocated to wholesale communities. In the specific case at hand, the Commission finds that the communities of Brown Deer, Butler, Greendale, Menomonee Falls, New Berlin, and Wauwatosa meet the above criteria. The Commission also finds that the West Pressure Zone of West Allis and the East Pressure Zone of Mequon meet the criteria, but the remainder of those systems do not. Therefore, a PFP allocation should be made to the other wholesale customers and the remaining portions of West Allis and Mequon.

Commissioner Callisto dissents and writes separately (see attached).

Commission staff proposed an alternative to the system fire flow estimate for MWW ([PSC REF#: 206290](#) at 2-4). While most of the record is silent as to the party's positions on Commission staff's proposal, and therefore does not support modifying the system fire flow from MWW's cost of service model, the Commission believes that there is merit to reevaluating the

method by which fire flow amounts are estimated for rate cases. The Commission directs MWW and the other parties to work with Commission staff on an investigation into system fire flow estimates.

Rate Design

Overall, the water service rates authorized for MWW in this Final Decision will result in an estimated net operating income of \$18,068,552 which provides a 5.38 percent ROR on NIRB of \$336,130,621. This represents an increase in total water revenues of 11.4 percent.

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 will depend on the specific usage level of that customer.

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, commercial, industrial, and public authority retail customers in the city of Milwaukee (Urban) were computed using the general service charges in Schedule Mg-1 and the PFP charges in Schedule F-1 to compare existing rates with the new rates. Some typical water bills for residential, commercial, industrial, and public authority retail customers outside the city of Milwaukee (Suburban—except West Milwaukee) in Greenfield, Hales Corners, and St. Francis, and boundary customers in Brown Deer, Cudahy, Franklin, Glendale, Shorewood, Wauwatosa, West Allis and similarly served areas, were computed using

the general service charges in Schedule Mg-2 and the PFP charges in Schedule F-2 to compare existing rates with the new rates. Some typical water bills for residential, commercial, and industrial retail customers in the West Milwaukee (Suburban—West Milwaukee) were computed using the general service charges in Schedule Mg-3 and the PFP charges in Schedule F-3 to compare existing rates with the new rates. Those comparisons are set forth in Appendix D.

The overall increase in annual revenues is 11.4 percent, comprised of a 10.4 percent increase in retail general service charges, a 13.7 percent increase in wholesale general service charges, and a 17.7 percent increase in PFP charges.

A typical Milwaukee Urban residential customer's bill for general service will rise 9.8 percent. When the direct PFP service charge is included, the total water bill for a typical Milwaukee Urban customer will rise 13.0 percent. Rates have risen because of an 11.2 percent increase in gross plant investment and a 6.9 percent increase in operating expenses since the MWW's last rate case in docket 3720-WR-107. The typical bills calculated using the authorized rates are below average when compared with those of similar water utilities in the state.

The overall annual PFP charge will increase by 17.7 percent, compared to a 10.7 percent increase in overall general service charges. The larger increase in the PFP charge results because a greater proportion of the annual operating costs is allocated to fire protection than was allocated at the time of the MWW's last rate proceeding, based on current ratios of maximum general service demand to available system fire protection capacity. The larger increase in the PFP charge is reasonable in that it appropriately reflects the cost of providing service.

The authorized general service rates provide a greater percentage increase to large-volume users than for average residential customers. This greater increase is caused by the

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relatively larger increases in the rates for the high-volume rate blocks based on the results of the base-extra capacity cost allocation as discussed above. The greater increase to large-volume users is reasonable in that the authorized rates more appropriately reflect the cost of providing service than do the present rates.

MWW's tariff provisions (operating rules and main extension rules) are in accordance with Commission policy and the Wisconsin Administrative Code.

Bottom Block Volume Charge for Large Industrial Customers

MillerCoors LLC asked the Commission to examine MWW's last rate block, suggesting it needed to be significantly reduced ([PSC REF#: 206724](#) at 9-11). However, MillerCoors LLC failed to submit evidence on the record for the Commission to consider.

MWW's proposed rate structure provides a 42 percent discount from the first block for the bottom block rate ([PSC REF#: 205540](#)). With this rate structure, industrial customers are only charged 90 percent of cost of service. Lowering the third block would further lower the percentage of cost of service.

With no competing proposal from MillerCoors LLC to consider, the Commission authorizes the declining block rate design proposed by MWW.

Economic Development Rate (EDR)

MWW does not wish to have an EDR as part of its tariff, ([PSC REF#: 205675](#) at 13) and no proposal was made for an EDR in this case.

The Commission will not order an EDR in this case. However, the Commission directs MWW to work with its wholesale customers, the city of Milwaukee, members of the Milwaukee

business community, CUB, Commission staff, and other interested stakeholders to develop and consider implementation of a new EDR in its next rate case.

Rules and Regulations

MWW's Water Utility Operating Rules are consistent with current practice and legal requirements. These rules, referenced in Appendix C, are in accordance with Commission policy and the Wisconsin Administrative Code.

Public Comments

Three members of the public made statements at the public hearings regarding MWW's application to increase water rates, and two public comments were filed on the Electronic Regulatory Filing System. All of these comments were in opposition to the rate increase, expressing concern over the magnitude of the increase and its impact on customers. The Commission appreciates the concerns raised in this matter. However, the Commission finds that the revenue resulting from the authorized rates is necessary to provide for the long-term financial needs of the MWW. The Commission further concludes that the authorized rates provide a reasonable and nondiscriminatory recovery of the revenue requirement.

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 MWW files these rates and tariff provisions with the Commission and makes them available to the public pursuant Wis. Stat. § 196.19 and Wis. Admin. Code § PSC 185.33(1)(f). If a copy of the new rates is not made available to the public by this date, the new rates shall take effect on the date they are made available to the public.

3. MWW may revise its existing rates and tariff provisions for water utility service, substituting the rate increases and tariff provisions that restrict the terms of service, as shown in Appendix C. These changes shall be in effect until the Commission issues an order establishing new rates and tariff provisions.

4. The authorized rate decreases and tariff provisions that expand the terms of service shall take effect one day after MWW files these rates and tariff provisions with the Commission and makes them available to the public pursuant Wis. Stat. § 196.19 and Wis. Admin. Code § PSC 185.33(1)(f). If a copy of the new rates is not made available to the public by this date, the new rates shall take effect on the date they are made available to the public.

5. By one day after the date of mailing, MWW shall revise its existing rates and tariff provisions for water utility service, substituting the rate decreases and tariff provisions that expand the terms of service, as shown in Appendix C. These changes shall be in effect until the Commission issues an order establishing new rates and tariff provisions.

6. MWW shall discontinue its existing water rates and rules for service and make effective for water service the rates and rules set forth in Appendix C.

7. MWW shall inform the Commission, in writing, of the date that the authorized rates and rules are to take effect.

8. MWW shall inform each customer of the new rates as required by Wis. Admin. Code § PSC 185.33(1).

9. MWW shall meet with its wholesale customers, Commission staff, and other stakeholders to determine a better methodology for revising customer demand ratios and shall report back to the Commission within 60 days with a mutually agreeable proposal as to how the Trilogy study will be revised, modified, or otherwise supplemented. The agreed upon methodology shall then be used to update the demand study, and the resulting demand ratios shall be used in MWW's next rate case.

10. MWW shall replace no less than 15 miles of main in 2015-2017, 18 miles in 2018-2019, and 20 miles in 2020.

11. MWW shall hire an independent consultant to do a main replacement study and shall submit a copy of the final report prepared by this consultant to the Commission.

12. MWW shall report to the Commission regarding the condition of its mains.

13. MWW shall report to the Commission regarding the progress of its main replacement program.

14. MWW and the Wholesale Customers shall work with Commission staff to further evaluate alternative methods for allocating fire protection costs for use in MWW's next rate case, including further analysis of Commission staff's proposal offered in this proceeding. The Commission shall also open a generic investigation to study further the methods of all water utilities in allocating fire protection costs.

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15. MWW shall work with Commission staff, the business community, and other interested stakeholders to discuss the possibility of developing an EDR for consideration in MWW's next rate case.

16. Jurisdiction is retained.

DISSENT

Commissioner Callisto dissents in part and writes separately (see attached).

Dated at Madison, Wisconsin, this 30th day of October, 2014.

By the Commission:

A handwritten signature in cursive script that reads "Sandra J. Paske".

Sandra J. Paske
Secretary to the Commission

DL: 00947504

See attached Notice of Appeal Rights

PUBLIC SERVICE COMMISSION OF WISCONSIN
610 North Whitney Way
P.O. Box 7854
Madison, Wisconsin 53707-7854

**NOTICE OF RIGHTS FOR REHEARING OR JUDICIAL REVIEW, THE
TIMES ALLOWED FOR EACH, AND THE IDENTIFICATION OF THE
PARTY TO BE NAMED AS RESPONDENT**

The following notice is served on you as part of the Commission's written decision. This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

PETITION FOR REHEARING

If this decision is an order following a contested case proceeding as defined in Wis. Stat. § 227.01(3), a person aggrieved by the decision has a right to petition the Commission for rehearing within 20 days of the date of service of this decision, as provided in Wis. Stat. § 227.49. The date of service is shown on the first page. If there is no date on the first page, the date of service is shown immediately above the signature line. The petition for rehearing must be filed with the Public Service Commission of Wisconsin and served on the parties. An appeal of this decision may also be taken directly to circuit court through the filing of a petition for judicial review. It is not necessary to first petition for rehearing.

PETITION FOR JUDICIAL REVIEW

A person aggrieved by this decision has a right to petition for judicial review as provided in Wis. Stat. § 227.53. In a contested case, the petition must be filed in circuit court and served upon the Public Service Commission of Wisconsin within 30 days of the date of service of this decision if there has been no petition for rehearing. If a timely petition for rehearing has been filed, the petition for judicial review must be filed within 30 days of the date of service of the order finally disposing of the petition for rehearing, or within 30 days after the final disposition of the petition for rehearing by operation of law pursuant to Wis. Stat. § 227.49(5), whichever is sooner. If an *untimely* petition for rehearing is filed, the 30-day period to petition for judicial review commences the date the Commission serves its original decision.¹ The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

If this decision is an order denying rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not permitted.

Revised: March 27, 2013

¹ See *State v. Currier*, 2006 WI App 12, 288 Wis. 2d 693, 709 N.W.2d 520.

APPEARANCES

In order to comply with Wis. Stat. § 227.47, the following parties who appeared before the agency are considered parties for purposes of review under Wis. Stat. § 227.53.

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PUBLIC SERVICE COMMISSION OF WISCONSIN

(Not a party, but must be served)

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Please file documents using the Electronic Regulatory Filing (ERF) system which may be accessed through the PSC website: <https://psc.wi.gov>.

MILWAUKEE WATER WORKS
Comparison of Revenue
at Present Rates, Cost of Service and Authorized Rates

Customer Class	Revenue at Present Rates	Cost of Service		Authorized Rates		
		Revenue Required	Increase Over Present Rates	Revenue	Increase Over Present Rates	Percent of Cost of Service
General Service (Volumetric & Meter Charge) - Retail						
Urban Residential	\$ 30,764,776	\$ 33,767,422	9.76%	\$ 33,819,343	9.93%	100.15%
Urban Commercial	17,219,428	19,488,578	13.18%	19,207,572	11.55%	98.56%
Urban Industrial	5,447,762	6,469,817	18.76%	6,149,572	12.88%	95.05%
Urban Public Authority	3,732,696	4,915,626	31.69%	4,089,730	9.57%	83.20%
Urban Total	\$ 57,164,662	\$ 64,641,444	13.08%	\$ 63,266,217	10.67%	97.87%
Suburban Residential	\$ 3,588,632	\$ 3,142,205	-12.44%	\$ 3,937,634	9.73%	125.31%
Suburban Commercial	2,581,893	2,226,677	-13.76%	2,837,206	9.89%	127.42%
Suburban Industrial	101,174	69,731	-31.08%	110,337	9.06%	158.23%
Suburban Public Authority	47,544	48,424	1.85%	52,564	10.56%	108.55%
Suburban Total	\$ 6,319,243	\$ 5,487,037	-13.17%	\$ 6,937,741	9.79%	126.44%
West Milwaukee Residential	\$ 159,882	\$ 155,185	-2.94%	\$ 162,627	1.72%	104.80%
West Milwaukee Commercial	154,334	137,495	-10.91%	139,194	-9.81%	101.24%
West Milwaukee Industrial	431,322	388,695	-9.88%	403,504	-6.45%	103.81%
West Milwaukee Public Authority	0	0		0		
West Milwaukee Total	\$ 745,538	\$ 681,375	-8.61%	\$ 705,324	-5.39%	103.51%
Retail Residential Total	\$ 34,513,290	\$ 37,064,813	7.39%	\$ 37,919,603	9.87%	102.31%
Retail Commercial Total	\$ 19,955,655	\$ 21,852,749	9.51%	\$ 22,183,972	11.17%	101.52%
Retail Industrial Total	\$ 5,980,258	\$ 6,928,243	15.85%	\$ 6,663,413	11.42%	96.18%
Retail Public Authority Total	\$ 3,780,240	\$ 4,964,051	31.32%	\$ 4,142,294	9.58%	83.45%
Retail Total	\$ 64,229,443	\$ 70,809,856	10.25%	\$ 70,909,282	10.40%	100.14%
General Service (Volumetric & Meter Charge) - Wholesale						
Brown Deer	\$ 641,303	\$ 721,571	12.52%	\$ 724,172	12.92%	100.36%
Butler	\$ 148,860	\$ 165,550	11.21%	\$ 165,932	11.47%	100.23%
Greendale	\$ 584,342	\$ 729,359	24.82%	\$ 726,943	24.40%	99.67%
Menomonee Falls	\$ 1,407,682	\$ 1,604,903	14.01%	\$ 1,607,283	14.18%	100.15%
Mequon	\$ 480,304	\$ 542,431	12.93%	\$ 542,251	12.90%	99.97%
New Berlin	\$ 1,186,334	\$ 1,328,844	12.01%	\$ 1,327,832	11.93%	99.92%
Shorewood	\$ 682,676	\$ 717,632	5.12%	\$ 718,838	5.30%	100.17%
Wauwatosa	\$ 2,095,160	\$ 2,462,185	17.52%	\$ 2,463,416	17.58%	100.05%
West Allis	\$ 2,341,094	\$ 2,622,493	12.02%	\$ 2,624,944	12.12%	100.09%
County Institutions	\$ 401,626	\$ 433,823	8.02%	\$ 434,478	8.18%	100.15%
Wholesale Total	\$ 9,969,381	\$ 11,328,791	13.64%	\$ 11,336,091	13.71%	100.06%
Public Fire Protection - Total	\$ 6,861,238	\$ 8,126,970	18.45%	\$ 8,076,905	17.72%	99.38%
Total Sytem	\$ 81,060,062	\$ 90,265,617	11.36%	\$ 90,322,278	11.43%	100.06%

MILWAUKEE WATER WORKS
Comparison of Revenue
at Present Rates, Cost of Service and Authorized Rates

Customer Class	Revenue at Present Rates	Cost of Service		Authorized Rates		
		Revenue Required	Increase Over Present Rates	Revenue	Increase Over Present Rates	Percent of Cost of Service
Public Fire Protection - Retail						
Urban - Milwaukee	\$ 5,412,568	\$ 7,057,238	30.39%	\$ 6,912,889	27.72%	97.95%
Suburban - Greenfield	\$ 494,889	\$ 566,969	14.56%	\$ 629,983	27.30%	111.11%
Suburban - Hales Corners	\$ 70,850	\$ 77,585	9.51%	\$ 86,204	21.67%	111.11%
Suburban - St. Francis	\$ 135,430	\$ 151,698	12.01%	\$ 168,554	24.46%	111.11%
Suburban - Boundary	\$ 53,194	\$ 52,142	-1.98%	\$ 57,927	8.90%	111.09%
Suburban - Others	\$ 754,363	\$ 848,394	12.46%	\$ 942,668	24.96%	111.11%
Suburban - West Milwaukee	\$ 81,817	\$ 85,026	3.92%	\$ 85,037	3.94%	100.01%
Suburban Total	\$ 836,180	\$ 933,420	11.63%	\$ 1,027,704	22.90%	110.10%
Retail Total	\$ 6,248,748	\$ 7,990,659	27.88%	\$ 7,940,593	27.07%	99.37%
Public Fire Protection - Wholesale						
Brown Deer	\$ 32,947	\$ -	-100.00%	\$ -	-100.00%	
Butler	\$ 7,193	\$ -	-100.00%	\$ -	-100.00%	
Greendale	\$ 38,498	\$ -	-100.00%	\$ -	-100.00%	
Menomonee Falls	\$ 89,510	\$ -	-100.00%	\$ -	-100.00%	
Mequon	\$ 21,362	\$ 3,339	-84.37%	\$ 3,339	-84.37%	100.00%
New Berlin	\$ 72,285	\$ -	-100.00%	\$ -	-100.00%	
Shorewood	\$ 38,078	\$ 63,047	65.57%	\$ 63,047	65.57%	100.00%
Wauwatosa	\$ 117,263	\$ -	-100.00%	\$ -	-100.00%	
West Allis	\$ 154,246	\$ 69,926	-54.67%	\$ 69,926	-54.67%	100.00%
County Institutions	\$ 41,108	\$ -	-100.00%	\$ -	-100.00%	
Wholesale Total	\$ 612,490	\$ 136,312	-77.74%	\$ 136,312	-77.74%	100.00%
Public Fire Protection - Total	\$ 6,861,238	\$ 8,126,970	18.45%	\$ 8,076,905	17.72%	99.38%
Summary: General Service and Public Fire Protection						
Retail						
Urban - Milwaukee	\$ 62,577,230	\$ 71,698,682	14.58%	\$ 70,179,106	12.15%	97.88%
Suburban - Others	\$ 7,073,606	\$ 6,335,431	-10.44%	\$ 7,880,409	11.41%	124.39%
Suburban - West Milwaukee	\$ 827,355	\$ 766,401	-7.37%	\$ 790,361	-4.47%	103.13%
Retail Total	\$ 70,478,191	\$ 78,800,515	11.81%	\$ 78,849,875	11.88%	100.06%
Wholesale						
Brown Deer	\$ 674,250	\$ 721,571	7.02%	\$ 724,172	7.40%	100.36%
Butler	\$ 156,053	\$ 165,550	6.09%	\$ 165,932	6.33%	100.23%
Greendale	\$ 622,840	\$ 729,359	17.10%	\$ 726,943	16.71%	99.67%
Menomonee Falls	\$ 1,497,192	\$ 1,604,903	7.19%	\$ 1,607,283	7.35%	100.15%
Mequon	\$ 501,666	\$ 545,770	8.79%	\$ 545,590	8.76%	99.97%
New Berlin	\$ 1,258,619	\$ 1,328,844	5.58%	\$ 1,327,832	5.50%	99.92%
Shorewood	\$ 720,754	\$ 780,679	8.31%	\$ 781,885	8.48%	100.15%
Wauwatosa	\$ 2,212,423	\$ 2,462,185	11.29%	\$ 2,463,416	11.34%	100.05%
West Allis	\$ 2,495,340	\$ 2,692,419	7.90%	\$ 2,694,870	8.00%	100.09%
County Institutions	\$ 442,734	\$ 433,823	-2.01%	\$ 434,478	-1.86%	100.15%
Wholesale Total	\$ 10,581,871	\$ 11,465,103	8.35%	\$ 11,472,402	8.42%	100.06%
Total System	\$ 81,060,062	\$ 90,265,617	11.36%	\$ 90,322,278	11.43%	100.06%

MILWAUKEE WATER WORKS

Authorized Water Rates and Rules

Public Fire Protection Service - Urban - - - 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.

Under Wis. Stat. § 196.03(3)(b), the City of Milwaukee has chosen to have the utility bill the urban retail general service customers for public fire protection service.

Quarterly Public Fire Protection Service Charges:

5/8 -inch meter - \$	8.72	3 -inch meter - \$	130.75
3/4 -inch meter - \$	8.72	4 -inch meter - \$	217.91
1 -inch meter - \$	21.79	6 -inch meter - \$	435.82
1 1/4 -inch meter - \$	21.79	8 -inch meter - \$	697.32
1 1/2 -inch meter - \$	43.58	10 -inch meter - \$	1,045.97
2 -inch meter - \$	69.73	12 -inch meter - \$	1,394.63

Customers who are provided service under Schedule Mg-1 shall be subject to the charges in this schedule according to the size of their primary meter.

Billing: Same as Schedule Mg-1.

Public Fire Protection Service - Suburban Retail (Except West Milwaukee) - - - F-1.1

Delete.

Public Fire Protection Service - Suburban Retail: West Milwaukee - - - F-1.4

Delete.

Public Fire Protection Service - Suburban (Except West Milwaukee) - - - F-2

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.

Under Wis. Stat. § 196.03(3)(b), the suburban retail communities have chosen to have the utility bill the suburban retail general service customers for public fire protection service.

Quarterly Public Fire Protection Service Charges (Urban charges plus a 25 percent surcharge):

5/8 -inch meter - \$	10.90	3 -inch meter - \$	163.44
3/4 -inch meter - \$	10.90	4 -inch meter - \$	272.39
1 -inch meter - \$	27.24	6 -inch meter - \$	544.78
1 1/4 -inch meter - \$	27.24	8 -inch meter - \$	871.65
1 1/2 -inch meter - \$	54.48	10 -inch meter - \$	1,307.46
2 -inch meter - \$	87.16	12 -inch meter - \$	1,743.29

Customers in Greenfield, Hales Corners, and St. Francis and boundary customers in Brown Deer, Cudahy, Franklin, Glendale, Shorewood, Wauwatosa, West Allis, and similarly served areas who are provided service under Schedule Mg-2 shall also be subject to the charges in this schedule according to the size of their primary meter.

Billing: Same as Schedule Mg-2.

Public Fire Protection Service - Suburban - West Milwaukee - - - F-3

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.

Under Wis. Stat. § 196.03(3)(b), West Milwaukee has chosen to have the utility bill the suburban retail general service customers for public fire protection service.

Quarterly Public Fire Protection Service Charges:

5/8 -inch meter - \$	8.42	3 -inch meter - \$	126.25
3/4 -inch meter - \$	8.42	4 -inch meter - \$	210.42

1 -inch meter - \$	21.04	6 -inch meter - \$	420.84
1¼ -inch meter - \$	21.04	8 -inch meter - \$	673.34
1½ -inch meter - \$	42.08	10 -inch meter - \$	1,010.01
2 -inch meter - \$	67.33	12 -inch meter - \$	1,346.69

Customers in West Milwaukee who are provided service under Schedules Mg-3 shall be subject to the charges in this schedule according to the size of their primary meter.

Billing: Same as Schedule Mg-3.

Private Fire Protection Service - - - Pf-1

Delete

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 - Urban:

2 - inch or smaller connection - \$	16.00
3 - inch connection - \$	21.00
4 - inch connection - \$	33.00
6 - inch connection - \$	60.00
8 - inch connection - \$	81.00
10 - inch connection - \$	123.00
12 - inch connection - \$	231.00
14 - inch connection - \$	249.00
16 - inch connection - \$	474.00

Quarterly Private Fire Protection Service Demand Charges - Suburban (Urban charges above plus a 25 percent surcharge):

2 - inch or smaller connection - \$	20.00
3 - inch connection - \$	26.25
4 - inch connection - \$	41.25
6 - inch connection - \$	75.00
8 - inch connection - \$	101.25

10 - inch connection - \$	153.75
12 - inch connection - \$	288.75
14 - inch connection - \$	311.25
16 - inch connection - \$	592.50

Billing: Same as Schedule Mg-1.

General Service - Metered - Urban - - - Mg-1

Quarterly Service Charges (All Customer Classes):

5/8 -inch meter - \$	16.95	3 -inch meter - \$	120.86
3/4 -inch meter - \$	16.95	4 -inch meter - \$	184.40
1 -inch meter - \$	27.88	6 -inch meter - \$	329.21
1 1/4 -inch meter - \$	27.88	8 -inch meter - \$	501.11
1 1/2 -inch meter - \$	47.97	10 -inch meter - \$	727.20
2 -inch meter - \$	73.58	12 -inch meter - \$	953.29

Plus Volume Charges:

Residential Class:

All water used quarterly - \$1.96 per 100 cubic feet

Nonresidential Class:

First	500,000	cubic feet used quarterly - \$1.99 per 100 cubic feet
Next	1,500,000	cubic feet used quarterly - \$1.28 per 100 cubic feet
Over	2,000,000	cubic feet used quarterly - \$1.15 per 100 cubic feet

Residential Class includes residential and multi-family residential customers. Residential customers include single-family homes, duplexes, and individually-metered condominiums, apartments, and mobile homes. Multi-family residential customers include master-metered multi-family dwelling units such as condominium complexes, apartment buildings, and mobile home parks.

Nonresidential Class includes commercial, industrial, and public authority customers. Commercial customers include business entities and institutions, except governmental entities, that provide goods or services. Churches and parochial schools are not governmental and are classified as commercial. Industrial customers include customers who are engaged in the manufacture or production of goods. Public Authority customers include any department,

agency, or entity of local, state, or federal government, including public schools, colleges, and universities.

Large volume retail customers may be billed monthly based on monthly meter readings at the discretion of Milwaukee Water Works.

Late Payment Charge: 5 percent (See also Wis. Stat. § 62.69(2)(e)).

Billing: See Water Utility Operating Rules (Schedule X-1), Chapter 5 - Billing and Collection.

General Service - Urban - - - Mg-1.1

Delete.

General Service - Metered - Suburban (Except West Milwaukee) - - - Mg-2

Quarterly Service Charges (All Customer Classes - Urban charges plus a 25 percent surcharge):

5/8 -inch meter - \$	21.19	3 -inch meter - \$	151.08
3/4 -inch meter - \$	21.19	4 -inch meter - \$	230.50
1 -inch meter - \$	34.85	6 -inch meter - \$	411.51
1 1/4 -inch meter - \$	34.85	8 -inch meter - \$	626.39
1 1/2 -inch meter - \$	59.96	10 -inch meter - \$	909.00
2 -inch meter - \$	91.98	12 -inch meter - \$	1,191.61

Plus Volume Charges for customers in Greenfield, Hales Corners, and St. Francis and boundary customers in Brown Deer, Cudahy, Franklin, Glendale, Shorewood, Wauwatosa, West Allis, and similarly served areas (Urban charges plus a 25 percent surcharge):

Residential:

All water used quarterly - \$2.45 per 100 cubic feet

Non-Residential:

First	500,000	cubic feet used quarterly - \$ 2.49 per 100 cubic feet
Next	1,500,000	cubic feet used quarterly - \$ 1.60 per 100 cubic feet
Over	2,000,000	cubic feet used quarterly - \$ 1.44 per 100 cubic feet

Residential Class includes residential and multi-family residential customers. Residential customers include single-family homes, duplexes, and individually-metered condominiums,

apartments, and mobile homes. Multi-family residential customers include master-metered multi-family dwelling units such as condominium complexes, apartment buildings, and mobile home parks.

Nonresidential Class includes commercial, industrial, and public authority customers. Commercial customers include business entities and institutions, except governmental entities, that provide goods or services. Churches and parochial schools are not governmental and are classified as commercial. Industrial customers include customers who are engaged in the manufacture or production of goods. Public Authority customers include any department, agency, or entity of local, state, or federal government, including public schools, colleges, and universities.

Billing: Same as Schedule Mg-1.

General Service - Metered - Suburban - West Milwaukee - - - Mg-3

Quarterly Service Charges:

5/8 -inch meter - \$	21.19	3 -inch meter - \$	151.08
3/4 -inch meter - \$	21.19	4 -inch meter - \$	230.50
1 -inch meter - \$	34.85	6 -inch meter - \$	411.51
1 1/4 -inch meter - \$	34.85	8 -inch meter - \$	626.39
1 1/2 -inch meter - \$	59.96	10 -inch meter - \$	909.00
2 -inch meter - \$	91.98	12 -inch meter - \$	1,191.61

Plus Volume Charges:

First	10,000	cubic feet used quarterly - \$1.13 per 100 cubic feet
Next	490,000	cubic feet used quarterly - \$1.10 per 100 cubic feet
Next	1,500,000	cubic feet used quarterly - \$0.99 per 100 cubic feet
Over	2,000,000	cubic feet used quarterly - \$0.93 per 100 cubic feet

Billing: Same as Schedule Mg-1.

Public Service - - - Mpa-1

Metered Service

Water used by the City of Milwaukee 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.

Miscellaneous Service - - - Mz-1

Deposits:

Hydrant Wrench:	\$200.00
Hydrant Cap:	\$160.00
Small Meter:	\$110.00
Large Meter:	\$980.00

Hydrant wrench and cap must be returned at the expiration of the hydrant use permit.

Sewer Flushing and Lining: Per 100 feet or portion thereof based on sewer diameter pipe below.

12-inch and smaller	\$31.67
Larger than 12-inch to 24-inch	\$126.67
Larger than 24-inch to 36-inch	\$241.46
Larger than 36-inch to 60-inch	\$649.18
Larger than 60-inch	\$1,551.70

Metered Hydrant Use:

- General Service Charge: \$70.00 per week (non-refundable)
- Meter Installation: \$350.00 per occurrence
- For Water Used Inside Milwaukee: Apply Urban Volume Charges (Schedule Mg-1)
- For Water Used Outside Milwaukee: Apply Urban Volume Charges (Schedule Mg-1) plus a 25 percent surcharge.

When water is taken from a Milwaukee Water Works hydrant before obtaining the required permit, a permit fee equaling 4 times the normal original permit fee will be assessed (up to a maximum of \$2,000.00 per occurrence).

Meter size requirement is at the discretion of Milwaukee Water Works.

Garden Plots:

Unmetered water from public hydrants used during the growing season (April through September) for garden plots on city property shall be charged the following rates for service (outside the City of Milwaukee add a 25 percent surcharge):

Irrigable: \$70.00 service charge per hydrant connection per season.
\$26.00 per 1,000 square feet or portion thereof.
This volume is approximately 1,135 gallons per 100 square feet per growing season.

Hand-Carry: \$70.00 service charge per hydrant connection per season.
\$10.00 per 1,000 square feet or portion thereof.
This volume is approximately 427 gallons per 100 square feet per growing season.

City Boulevards Irrigated by Sprinklers: \$22.00 per 1,000 square feet annually.

Chargeable Hose Connections: \$1,020.00 per temporary hose connection at customer request.

Bulk Water Permits:

Set Up: \$70.00 annual fee (non-refundable)
Fill Charge: \$10.00 per visit to fill
Volume Charge: Same as Schedule Mg-1

Caulkers Test Charge: \$100.00 per test

Inspectors certify that contractor personnel are able to pass a written test on the procedure on how to caulk a water main.

Flow Test Charge: \$400.00 per test

Engineering provides water pressure and fire flow tests on the system. These tests take about 1 to 2 hours.

Billing: Same as Schedule Mg-1.

Wholesale Water Service - Metered - - - W-1

Wholesale water service to various communities shall be provided at the following charges:

	<u>Monthly Fire Protection</u>	<u>Monthly General Service</u>	<u>Volume Charge Per 100 Cubic Feet</u>
Brown Deer	\$ 0.00	\$ 835.19	\$1.15
Butler	\$ 0.00	\$ 274.34	\$1.07
Greendale	\$ 0.00	\$1,023.59	\$1.29
Menomonee Falls	\$ 0.00	\$1,023.59	\$1.10
Mequon	\$ 278.24	\$ 417.53	\$1.21
New Berlin	\$ 0.00	\$ 835.19	\$1.09
Shorewood	\$5,253.90	\$1,003.20	\$1.14
Wauwatosa	\$ 0.00	\$1,818.00	\$1.12
West Allis	\$5,827.15	\$1,212.00	\$1.04
County Institutions	\$ 0.00	\$1,003.20	\$1.18

Billing: Same as Schedule Mg-1.

Standby Service to City of Cudahy Water Utility - - - Ws-1

Delete.

Standby Service to North Shore Water Commission - - - Ws-3

Delete.

Municipal Interconnection Charge - City of Cudahy - - - MI-1

For emergency water service provided to the City of Cudahy, the following charges shall apply:

Service Charge: \$3,500 per year, payable in equal installments on January 1 and July 1 for the year, in advance.

Volume Charge: Applicable charge under Schedule Mg-2.

Billing: Same as Schedule Mg-1.

Municipal Interconnection Charge - North Shore Water Commission - - - MI-2

For emergency water service provided to the North Shore Water Commission, the following charges shall apply:

Service Charge: \$2,700 per year, payable in equal installments on January 1 and July 1 for the year, in advance.

Volume Charge: Applicable charge under Schedule Mg-2.

Billing: Same as Schedule Mg-1.

Other Charges - - - OC-1

Payment Not Honored by Financial Institution Charge: The utility shall assess a \$35.00 charge to the customer's account 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.

Special Billing Charge: The utility shall assess a \$35.00 charge to the requestor to cover administrative expenses whenever an existing customer or the property owner requests a special billing outside of the normal utility billing. This charge may not be assessed to a new customer.

Special Meter Reading Charge: The utility shall assess a \$30.00 charge to the requestor whenever an existing customer or the property owner requests a special meter reading by utility personnel on a date other than the regularly scheduled meter reading. This charge may not be assessed if the customer or the property owner provides the meter reading. This charge may not be assessed to a new customer.

Missed Appointment Charge: The utility shall assess a missed appointment charge when a customer, without providing reasonable cancellation notice, fails to be present at the customer's location for an appointment scheduled with utility personnel. The utility may not apply the charge for the first such missed appointment during normal business hours. The utility shall apply the charge for the first such missed appointment after normal business hours.

During normal business hours:	\$60.00
After normal business hours:	\$60.00

Records Request Charge: The utility shall assess a charge of \$3.00 per bill whenever a customer or the property owner requests copies of bills that exceed two years from the request date.

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 2,600 cubic feet of water per quarter under Schedule Mg-1, Schedule Mg-2, or Schedule Mg-3, including the service charge for a 5/8-inch meter. If the utility determines that actual usage exceeds 2,600 cubic of water per quarter, an additional charge for the estimated excess usage shall be made according to the rates under Schedule Mg-1, Schedule Mg-2, or Schedule Mg-3.

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, Schedule Mg-2, or Schedule Mg-3.

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, Schedule Mg-2, or Schedule Mg-3 year-round, including the period of temporary disconnection.

Seasonal service shall include customers taking service under Schedule Mg-1, Schedule Mg-2, Schedule Mg-3, or Schedule Ug-1.

Upon reconnection, the utility shall apply a charge under Schedule R-1 or Schedule R-2 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.

Reconnection Charges - - - R-1

	<u>During Normal Business Hours</u>	<u>After Normal Business Hours</u>
Reinstallation of meter, including valving at curb stop	Applicable charge in Schedule R-2	Applicable charge in Schedule R-2

plus \$25.00

Valve turned on at curb stop only \$50.00 \$75.00

Note: No charge for disconnection.

Billing: Same as Schedule Mg-1.

Charges for Connections, Repairs, and Resetting Meters - - - Lc-1

Delete.

Charges for Connections, Repairs, and Resetting Meters - - - R-2

Permit Application Charge:

The charge for each separate application made for a tap, branch, or extension includes a non-refundable \$100.00 fee.

Tapping Charge:

The tapping charge covers the cost of the supplied Milwaukee Water Works specified and inspected materials. Materials are to be obtained at the DPW Field Headquarters facility located at 3850 North 35th Street, Milwaukee, WI 53216. Telephone contact numbers are (414) 286-0669 or (414) 286-6123.

Materials include: corporation stop, curb stop, service box (and in paved area a roadway service box) and saddle if specified. Service insulator supplied by the permit holder shall be installed at the curb stop. If work is commenced without obtaining a permit, a permit fee equal to 4 times the normal original fee will be assessed up to a maximum of \$2,000.00 per occurrence.

Main size (Inches)	Service Pipe Size (Inches)		
	1	1½	2
4	\$289.00*	\$356.00*	\$519.00*
6	\$220.00	\$379.00*	\$551.00*
8	\$220.00	\$434.00*	\$606.00*
12 and larger	\$220.00	\$434.00	\$606.00

*Requires and includes tapping saddle

Roadway Service Box (if service box is in a paved roadway) - \$180.00

Branch Charge:

The branch charge includes furnishing and installing a special sleeve or tee as required, the branch valve (gate or butterfly), and furnishing the valve box and cover. When work is commenced without obtaining the required permit, a permit fee equaling 4 times the normal original fee will be assessed (up to a maximum of \$2,000.00 per occurrence).

Main Size (Inches)	Service Pipe Size (Inches)					
	3	4	6	8	10	12
6	\$1,600.00*	\$1,760.00	\$2,060.00	N/A	N/A	N/A
8	\$1,600.00*	\$1,760.00	\$2,040.00	\$2,870.00	N/A	N/A
12	N/A	\$1,910.00	\$2,200.00	\$2,720.00	\$2,650.00	\$3,000.00
16	N/A	\$2,110.00	\$2,170.00	\$2,260.00	\$3,070.00	\$3,630.00
20	N/A	\$4,200.00**	\$4,580.00	\$4,430.00	\$4,630.00	\$4,520.00

* - Plumber must supply a reducer at branch valve to install 3-inch pipe.

** - Plumber must supply a reducer at branch valve to install 4-inch pipe.

N/A - Not applicable.

Extension (Meters) Charge:

The extension charge includes furnishing, testing, and installing the meter and automatic meter reading (AMR) device. Prices on request for meter types and sizes not listed. When work is commenced without obtaining the required permit, a permit fee equaling 4 times the normal original fee will be assessed (up to a maximum of \$2,000.00 per occurrence).

Meter Size (Inches)	Positive Displacement	Compound Turbine
5/8	\$240.00	N/A
3/4	\$260.00	N/A
1	\$310.00	N/A
1½	\$590.00	N/A
2	\$780.00	N/A
2C	N/A	\$ 1,710.00
3	N/A	\$ 2,190.00
4	N/A	\$ 3,220.00
6	N/A	\$ 4,630.00
8	N/A	\$ 6,940.00
10	N/A	\$ 8,460.00
4×2	N/A	\$ 6,400.00

6×2	N/A	\$ 8,420.00
8×2	N/A	\$11,040.00
10×2	N/A	\$15,900.00

Repair Charges:

Rule 4.1.3 of City of Milwaukee, Department of Public Works, Milwaukee Water Works, Rules and Regulations Governing Water Service, requires that damage through customer negligence be repaired by the utility at the customer’s expense. Repair expense will be billed at established rates for parts and labor for actual time and material used.

Charges for complaint tests will be made in accordance with Wis. Admin. Code §§ PSC 185.77 and 185.78.

Meter Reset Charges:

A meter reset charge applies to an account when utility personnel make a service call and find the meter missing, removed illegally, or previously removed at the owner’s request.

Meter Size (Inches)	Charge
5/8	\$ 50.00
3/4	\$ 50.00
1	\$ 50.00
1½	\$ 150.00
2	\$ 200.00
2C	\$ 300.00
3	\$ 390.00
4	\$ 390.00
6	\$ 590.00
8	\$ 790.00
10	\$ 790.00
4×2	\$ 790.00
6×2	\$ 790.00
8×2	\$1,180.00
10×2	\$1,580.00

Billing: Same as Schedule Mg-1.

Water Utility Operating Rules - - - X-1

No change.

MILWAUKEE WATER WORKS

Customer Water Bill Comparison at Present and Authorized Rates
Urban - Milwaukee

Customer Type	Meter Size (Inches)	Volume (100 Cu Ft)	Quarterly			Quarterly including Public Fire Protection		
			Bills at Old Rates	Bills at New Rates	Percent Change	Bills at Old Rates	Bills at New Rates	Percent Change
Small Residential	5/8	5	\$ 24.49	\$ 26.75	9.2%	\$ 30.41	\$ 35.47	16.6%
Residential	5/8	15	42.29	46.35	9.6%	48.21	55.07	14.2%
Average Residential	5/8	26	61.87	67.91	9.8%	67.79	76.63	13.0%
Residential	3/4	50	104.59	114.95	9.9%	110.51	123.67	11.9%
Residential	3/4	75	149.09	163.95	10.0%	155.01	172.67	11.4%
Commercial	1	100	205.69	226.88	10.3%	225.32	248.67	10.4%
Commercial	1 1/2	200	399.15	445.97	11.7%	443.71	489.55	10.3%
Commercial	1 1/2	500	903.15	1,042.97	15.5%	947.71	1,086.55	14.7%
Commercial	2	1,000	1,776.89	2,063.58	16.1%	1,845.32	2,133.31	15.6%
Commercial	3	2,000	3,538.68	4,100.86	15.9%	3,675.54	4,231.61	15.1%
Commercial	4	5,000	8,747.05	10,134.40	15.9%	8,969.84	10,352.31	15.4%
Public Authority	8	7,000	11,552.03	13,011.11	12.6%	12,287.23	13,708.43	11.6%
Large Commercial	6	10,000	14,558.03	16,679.21	14.6%	14,978.15	17,115.03	14.3%
Large Public Authority	10	12,000	17,551.11	19,637.20	11.9%	18,490.01	20,683.17	11.9%
Large Industrial	6	20,000	25,658.03	29,479.21	14.9%	26,078.15	29,915.03	14.7%
Large Public Authority	6	28,000	33,658.03	38,679.21	14.9%	34,078.15	39,115.03	14.8%
Large Industrial	8	90,000	95,982.03	110,151.11	14.8%	96,717.23	110,848.43	14.6%
Large Industrial	10	100,000	106,431.11	121,877.20	14.5%	107,370.01	122,923.17	14.5%

MILWAUKEE WATER WORKS

**Customer Water Bill Comparison at Present and Authorized Rates
Suburban - Greenfield, Hales Corners, St. Francis, and Boundary Customers**

Customer Type	Meter Size (Inches)	Volume (100 Cu Ft)	Quarterly			Quarterly including Public Fire Protection		
			Bills at Old Rates	Bills at New Rates	Percent Change	Bills at Old Rates	Bills at New Rates	Percent Change
Small Residential	5/8	5	\$ 30.64	\$ 33.44	9.1%	\$ 38.05	\$ 44.34	16.5%
Residential	5/8	15	52.92	57.94	9.5%	60.33	68.84	14.1%
Average Residential	5/8	22	68.52	75.09	9.6%	75.93	85.99	13.3%
Residential	3/4	50	130.90	143.69	9.8%	138.31	154.59	11.8%
Residential	3/4	75	186.60	204.94	9.8%	194.01	215.84	11.3%
Commercial	1	100	257.42	283.85	10.3%	281.95	311.09	10.3%
Commercial	1	150	362.17	408.35	12.8%	386.70	435.59	12.6%
Commercial	1 1/2	200	498.75	557.96	11.9%	554.45	612.44	10.5%
Commercial	1 1/2	500	1,127.25	1,304.96	15.8%	1,182.95	1,359.44	14.9%
Commercial	2	750	1,693.16	1,959.48	15.7%	1,778.70	2,046.64	15.1%
Commercial	2	1,000	2,216.91	2,581.98	16.5%	2,302.45	2,669.14	15.9%
Public Authority	2	1,500	3,264.41	3,826.98	17.2%	3,349.95	3,914.14	16.8%
Public Authority	3	2,000	4,414.15	5,131.08	16.2%	4,585.22	5,294.52	15.5%
Commercial	3	3,000	6,509.15	7,621.08	17.1%	6,680.22	7,784.52	16.5%
Industrial	4	4,000	8,814.61	10,190.50	15.6%	9,093.10	10,462.89	15.1%
Large Commercial	6	5,000	11,235.84	12,861.51	14.5%	11,760.99	13,406.29	14.0%
Large Industrial	6	10,000	18,200.84	20,861.51	14.6%	18,725.99	21,406.29	14.3%
Large Industrial	8	25,000	38,765.84	44,276.39	14.2%	39,684.85	45,148.04	13.8%

MILWAUKEE WATER WORKS

**Customer Water Bill Comparison at Present and Authorized Rates
Suburban - West Milwaukee**

Customer Type	Meter Size (Inches)	Volume (100 Cu Ft)	Quarterly			Quarterly including Public Fire Protection		
			Bills at Old Rates	Bills at New Rates	Percent Change	Bills at Old Rates	Bills at New Rates	Percent Change
Small Residential	5/8	5	\$ 25.30	\$ 26.84	6.1%	\$ 31.59	\$ 35.26	11.6%
Residential	5/8	15	36.90	38.14	3.4%	43.19	46.56	7.8%
Average Residential	5/8	27	50.82	51.70	1.7%	57.11	60.12	5.3%
Residential	3/4	50	77.50	77.69	0.2%	83.79	86.11	2.8%
Residential	3/4	75	106.50	105.94	-0.5%	112.79	114.36	1.4%
Commercial	1	100	150.62	147.85	-1.8%	171.48	168.89	-1.5%
Commercial	1	150	207.02	202.85	-2.0%	227.88	223.89	-1.8%
Commercial	1 1/2	200	295.25	282.96	-4.2%	342.60	325.04	-5.1%
Commercial	1 1/2	500	633.65	612.96	-3.3%	681.00	655.04	-3.8%
Commercial	2	750	957.81	919.98	-3.9%	1,030.52	987.31	-4.2%
Commercial	2	1,000	1,239.81	1,194.98	-3.6%	1,312.52	1,262.31	-3.8%
Commercial	2	1,500	1,803.81	1,744.98	-3.3%	1,876.52	1,812.31	-3.4%
Commercial	3	2,000	2,470.05	2,354.08	-4.7%	2,615.46	2,480.33	-5.2%
Industrial	3	3,000	3,598.05	3,454.08	-4.0%	3,743.46	3,580.33	-4.4%
Commercial	4	4,000	4,936.51	4,633.50	-6.1%	5,173.22	4,843.92	-6.4%
Industrial	4	5,000	6,064.51	5,733.50	-5.5%	6,301.22	5,943.92	-5.7%
Large Industrial	6	10,000	11,475.74	10,864.51	-5.3%	11,922.11	11,285.35	-5.3%
Large Industrial	8	25,000	26,800.74	25,629.39	-4.4%	27,581.89	26,302.73	-4.6%

MILWAUKEE WATER WORKS

**Schedule of Depreciation Rates
Effective January 1, 2014**

<u>Account Number</u>	<u>Account Title</u>	<u>Deprec. 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%
325	Electric Pumping Equipment	4.4%
	WATER TREATMENT PLANT	
331	Structures and Improvements	3.2%
332	Sand and Other Media Filtration Equipment	3.3%
334	Other Water Filtration Equipment	6.0%
	TRANSMISSION AND DISTRIBUTION PLANT	
342	Distribution Reservoirs and Standpipes	1.9%
343	Transmission and Distribution Mains	1.3%
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%
393	Stores Equipment	5.8%
394	Tools, Shop and Garage Equipment	5.8%
395	Laboratory Equipment	5.8%
396	Power Operated Equipment	7.5%
397	Communication Equipment	15.0%
397.1	SCADA Equipment	9.2%
398	Miscellaneous Equipment	5.8%

PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Milwaukee Water Works, Milwaukee County,
Wisconsin, for Authority to Increase Water Rates

3720-WR-108

DISSENT OF COMMISSIONER ERIC CALLISTO

I write separately to briefly explain my dissenting position from the Commission decisions regarding differential rate of return (ROR) and public fire protection (PFP) cost allocation.

On differential ROR, I would have allowed a 100 basis point differential between Milwaukee Water Works' (MWW) wholesale and retail customers, as proposed by MWW, and consistent with the Commission's historical practice and our guidelines for Commission staff auditors. The reality is that wholesale customers present a heightened risk of leaving the utility, unlike more captive retail customers. There is evidence in this record specifically suggesting that at least one of MWW's wholesale customers may soon leave the utility for a different supplier. This is a financial risk to the utility that is uniquely caused by the wholesale customer class. A modest 100 basis point ROR differential is a reasonable regulatory mechanism to account for that risk and one that would help promote financial stability for the utility.

On PFP allocation, I would have preferred staying with MWW's proposed allocation to wholesale customers. The record supports the fact that MWW incurs costs associated with providing capacity sufficient to meet the wholesale customers' fire flow demands, and so it is reasonable to allocate them their share of those costs. I do, however, agree that Commission

Docket 3720-WR-108

staff should work with MWW and other interested stakeholders in analyzing and perhaps developing a better way to identify fire flow estimates in future water rate cases. Ideally, we would have that work done before the next rate case addressing the assignment of PFP costs to wholesale customers.

I respectfully dissent.

DL: 00947519