

The background is a light blue gradient with several realistic water droplets of various sizes scattered across it. The droplets have highlights and shadows, giving them a three-dimensional appearance. The main title is centered in the upper half of the page.

# MADISON WATER UTILITY 2025 RATE CASE

PRESENTATION TO THE MADISON WATER UTILITY BOARD

SEPTEMBER 25, 2024

# OBJECTIVES FOR THE 2025 RATE CASE

- Increased funding to make needed investments in infrastructure
  - **Expense depreciation** to cash fund water main replacements
  - **Cash adder** to improve debt coverage and provide funding for other capital projects
- Making drinking water accessible and affordable to all customers
  - **Rate design**
  - **Customer assistance program** to reduce utility bills to an affordable level for low-income customers

# COSTS THAT CAN BE INCLUDED IN WATER RATES

## Conventional Rate Setting

Operation and maintenance expenses

PILOT and other taxes

*Amounts that can be used for debt service and capital:*

Normal depreciation expense (incl. 1.3% per year for water mains)

Return on net investment rate base

(Value of assets – accum. depreciation) x 6.20%

'Cash Adder' – additional amount needed to provide debt coverage (Madison only)

# 'EXPENSE DEPRECIATION' APPROACH

- PSCW has allowed utilities to depreciate the entire cost of water main replacements immediately instead of 1.3% per year
- The amount that the utility is allowed as 'expense depreciation' is a dedicated funding source for cash funding of water main replacements
- Expense depreciation may be used for replacement of up to 1% of water mains per year
- Example:
  - Normal Depreciation for \$1.0M of water main replacements - \$13,000 per year for 77 years
  - Expense depreciation for \$1.0m of water main replacements - \$1.0M in one year

# COSTS THAT CAN BE INCLUDED IN RATES

## 'Expense Depreciation' Approach

Operation and maintenance expenses

PILOT and other taxes

*Amounts that can be used for debt service and capital:*

Normal depreciation expense (incl. 1.3% per year for water mains not funded with expense depreciation)

**Expense depreciation for replacing up to 1% of water mains per year (funds must be spent on mains)**

Return on net investment rate base

(Value of assets – accum. depreciation) x 6.20%

'Cash Adder' – additional amount needed to provide debt coverage (Madison only)

## ACCOMPLISHMENTS FROM THE 2021 RATE CASE

- Approval for **\$5.0M** per year of expense depreciation to fund water main replacements (about **0.4%** of mains per year)
- Generate revenues to cash fund other ongoing capital improvements
- Reduced outstanding debt from **\$197M** at YE 2021 to **\$166M** at YE 2023
- Approval for customer assistance program (Madcap) rebates to offset rate increase and **reduce** monthly water bills for low-income customers



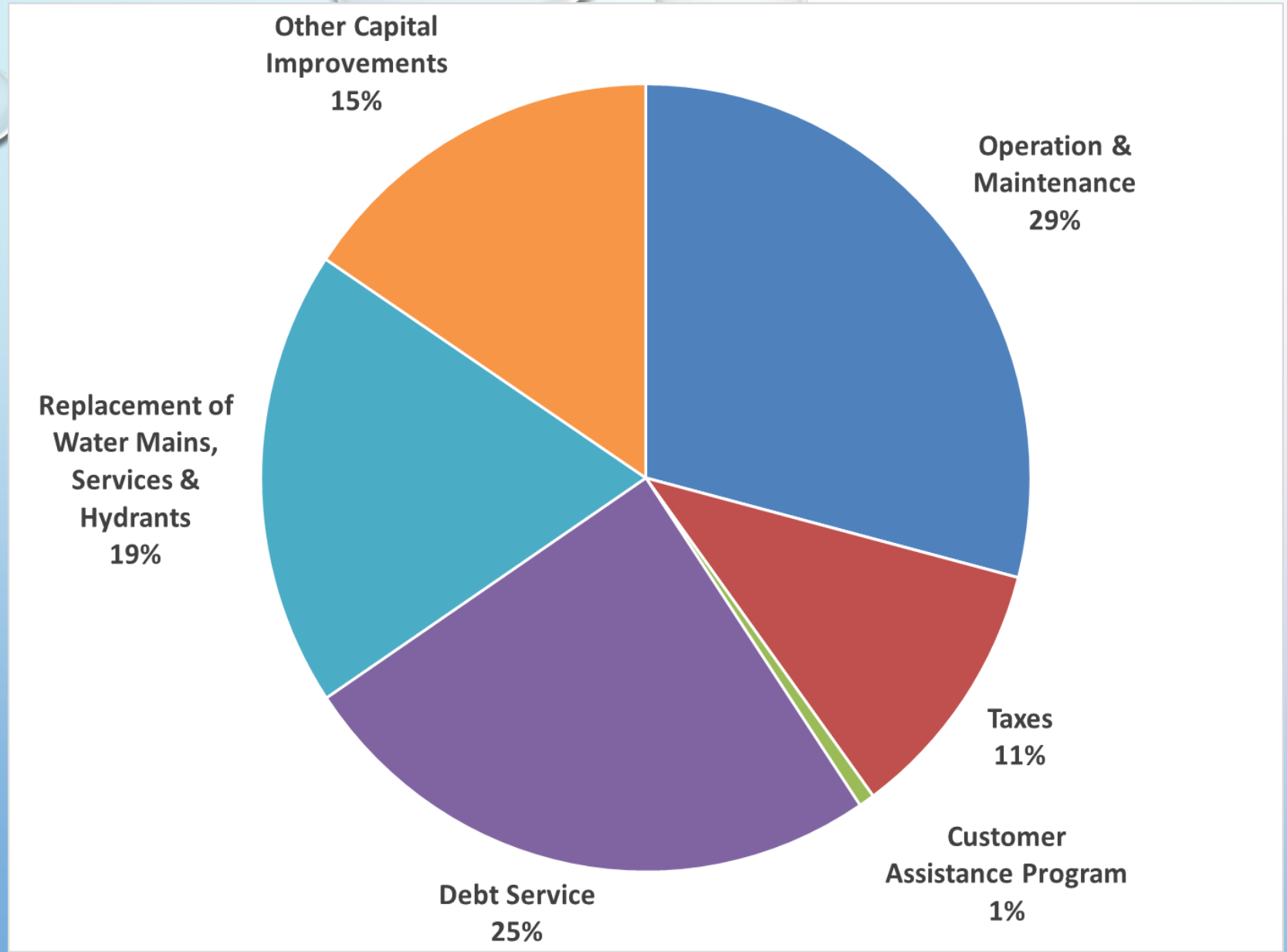
# GOALS FOR CURRENT RATE CASE

- Approval to increase expense depreciation to **\$10.0M** to fund water main replacements (about **0.8%** of mains per year)
- Continue to reduce outstanding debt to no more than **50%** of Water utility assets (currently at about 63%)
- Generate revenues for cash funding other capital improvements
- Streamline the customer assistance program (**MadCAP**) rebates to increase participation and reduce water bills for more low-income customers

# PROJECTED AMOUNTS AVAILABLE FOR DEBT SERVICE AND CAPITAL - 2025

Debt Service and Capital Components	Recommended Request for Cash Adder and Expense Depreciation
Normal Depreciation Expense	\$7.2M
Expense Depreciation	\$10.0M
Return on Investment	\$15.0M
Cash Adder	\$8.3M
<b>Revenues Available for Debt Service and Capital</b>	<b>\$40.5M</b>
Amount Available for Debt Service	\$18.8M
<b>Amount Available for Capital</b>	<b>\$21.7M</b>
• Main Replacement	\$10.0M
• Services & Hydrants Replacement	\$2.5M
• Other Capital	\$9.2M





# Percentage of Projected Expenditures 2025 - 2029

## CURRENT CUSTOMER ASSISTANCE PROGRAM (MadCAP)

<b>Area Median Income (AMI) Criteria</b>	<b>“Extremely Low-Income” (<math>\leq 30\%</math> AMI)</b>	<b>“Very Low-Income” (<math>&gt; 30\%</math> AMI but <math>\leq 50\%</math> AMI)</b>
Eligible Annual Income Threshold (for 3-person household)	$\leq \$27,900$	$\leq \$46,400$
Monthly Bill Offset Amount	\$12	\$8
Annual Bill Offset Amount	\$144	\$96

# MadCAP PARTICIPATION THROUGH JULY 2024

Applications	“Extremely Low-Income” ( $\leq 30\%$ AMI)	“Very Low-Income” ( $> 30\%$ AMI but $\leq 50\%$ AMI)	Total	Percent
<b>Received</b>	294	188	<b>482</b>	100%
Not Approved	85	69	154	32%
<b>Approved</b>	209	119	<b>328</b>	68%
Approved - Homeowners	126	84	210	64%
Approved - Renters	83	35	118	36%

## MadCAP AP BASIS FOR APPLICATION DENIAL

	<b>Basis</b>	<b>Denials</b>	<b>Percent</b>
1	Declined to participate in conservation	55	36%
2	Annual income renewal not done	41	27%
3	Income – too high or no documentation	37	24%
4	No account / service not in name	12	8%
5	Account inactive (moved or deceased)	8	5%
6	Incomplete application	1	>1%
	<b>Total</b>	<b>154</b>	<b>100%</b>

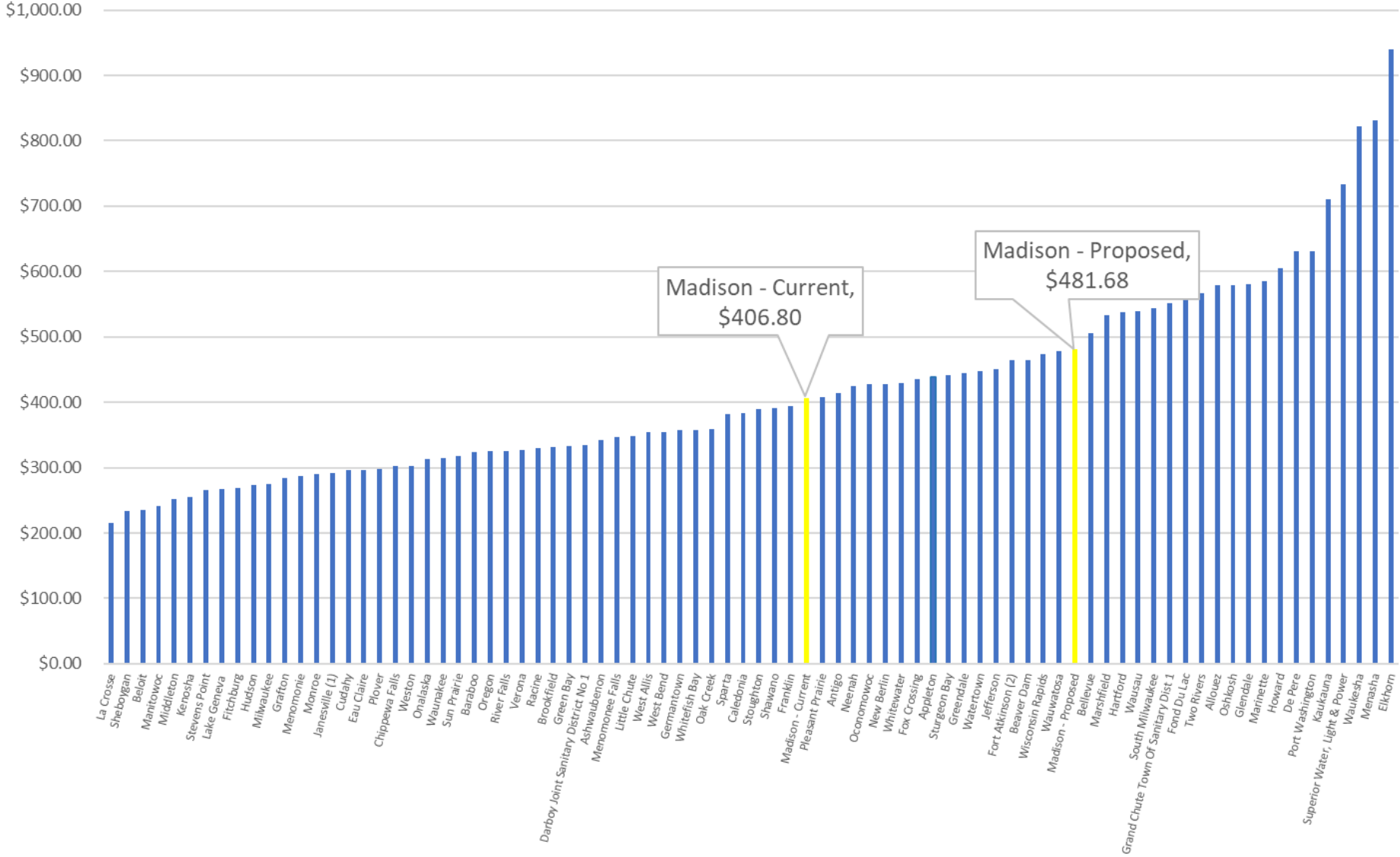
# MODIFICATIONS TO MADCAP

- Modify current application process to allow FoodShare (WI SNAP) with less than 4 members to receive the \$20 rebate with FoodShare eligibility card only
- Collaboration with WI Department of Health Services (DHS) on mailings to FoodShare and potential data sharing
- Seek Public Service Commission of Wisconsin (PSCW) approval to streamline the income verification process
  - Match or exceed qualifying income limits to the FoodShare limits
  - Combining rebates into a uniform rebate of \$30 per month (water utility share \$12)
- Seek PSCW approval to modify the need to participate in the utility's conservation program from pre-enrollment requirement to post-enrollment assistance

# ESTIMATED RATES AND AVERAGE MONTHLY RESIDENTIAL WATER BILLS

	Current Rates	\$10.0M Expense Depreciation \$8.3M Cash Adder
General Service Charge	\$14.00	\$15.20
Volumetric Rate – First 3,000 gal.	\$13.80	\$17.19
Volumetric Rate – Next 1,000 gal.	\$6.10	\$7.75
<b>Average Monthly Bill</b>	<b>\$33.90</b>	<b>\$40.14</b>
Change in Monthly Bill		\$6.24
Annualized Percentage Increase		5.8%
Net Change in Bill with \$12 Offset		<b>(\$5.76)</b>

# Statewide Class AB Utilities - Annual Residential Water Bill with Public Fire Protection





# NEXT STEPS

- Submit application to PSCW requesting:
  - **\$10.0M** expense depreciation to increase water main replacements to 0.8% per year
  - Cash adder of **\$8.3M** to provide adequate debt coverage, cash fund other routine ongoing capital investment and continue to reduce the utility's debt burden
  - Modifications to *MadCAP* to streamline the application process and reach more low-income customers with rebates to offset the rate increase