



Public Service Commission of Wisconsin

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Public Service Commission of Wisconsin
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January 16, 2019

Mr. Robin Piper, Chief Administrative Officer
 Madison Water Utility
 119 E Olin Avenue
 Madison, WI 53713

Re: Application of the City of Madison, Dane County,
 Wisconsin, as a Water Public Utility, for Authority to
 Adjust Water Rates

3280-WR-114

Dear Mr. Piper:

Madison Water Utility (MWU) filed a document titled Madison Financial Improvement Plan (plan) on December 28, 2018. ([PSC REF#: 356206](#).) MWU filed this document in response to the November 1, 2018, Final Decision in which the Commission required MWU to prepare and submit a financial improvement plan within 60 days from the effective date of the Final Decision. ([PSC REF#: 352551](#) at 36.) MWU's final financial improvement plan is due to the Commission on January 31, 2019. The Commission directed Commission staff to review this plan and provide comments to MWU.

Specifically, Order Point No. 12 of the above-referenced Final Decision requires MWU to file a plan setting forth the operational and financial changes MWU will implement to improve its financial condition and address its operational and management challenges. MWU's plan must include:

- a) a description of actions MWU will take to achieve the benchmark rate of return on rate base for municipal utilities, capital structure of 50 percent debt and 50 percent equity, and other benchmark financial covenants;
- b) detailed goals and operational adjustments;
- c) an established timeline with milestones for achieving the goals;
- d) a description of potential obstacles to achieving the goals;
- e) a description of consequent customer impacts, both positive and negative, that may result from implementing the plan; and
- f) an evaluation of the use of a surcharge as a future tool for improving the Utility's financial situation.

This letter provides Commission staffs' assessment of MWU's plan.

General

Commission staff believes the plan filed on December 28, 2018, is not sufficient to satisfy the requirements of Order Point No. 12. While the first section of the plan presents general challenges facing the water utility industry as a whole, it does not describe the Commission's specific concerns as they relate to MWU's operational, financial, and management practices. Throughout the plan, MWU provides only a very general description of actions it intends to take in order to reach each of its goals and the timeline for taking these actions. In addition, MWU does not provide supporting documentation for the graphs and charts included in its plan.

Achieve Benchmark Rate of Return (ROR) and 50/50 Capital Structure

- The plan describes MWU's goal with respect to debt as a percentage of net book value, not the requested debt as a percent of capital structure.
- Commission staff notes that if MWU uses the correct metric of debt as a percent of capital structure, MWU should re-evaluate both its percentage goal and timeline for achieving it.
- With regard to capital structure, the plan includes a statement that "Actions to reduce MWU's debt comply with the PSC's order, even if MWU sets a different goal." It is unclear what MWU's intention is with regard to this statement.
- The plan states MWU cannot achieve the benchmark ROR before 2027 without conflicting with its goals of investing in water infrastructure, reducing total debt, maintaining cash reserves, maintaining debt coverage ratios, and reducing lifecycle costs. The plan also states that building cash reserves and reducing debt will help MWU achieve the benchmark ROR. It is unclear when MWU intends to achieve the benchmark ROR.

Detailed Goals and Operational Adjustments

MWW established five goals relating to infrastructure investment, cash reserves, capital structure, debt coverage, and return on rate base. However, the plan does not provide sufficient detail, including the following information:

- A description of specific operational adjustments (for example, internal controls, reporting practices, improved business efficiency, etc.) for each goal;
- A timeline and milestone specific to each goal;
- A description of potential obstacles specific to each goal;
- Customer impacts specific to each goal;
- Detail regarding estimates of investment in infrastructure other than main replacement;
- A description of how MWU intends to prioritize its investment needs and balance these needs with its financial goals;
- While the plan mentions business practice changes it may make as a result of a Government Finance Officers Association (GFOA) report, the plan does not include an executive summary, list of findings, or copy of the report.

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The Financial Initiatives section of the plan lists several potential obstacles and customer impacts; however, they are not tied to specific goals. The section is essentially a summary of four potential rate increase alternatives, plus an option of reducing infrastructure investment. The Operational Initiatives section of the plan lists some potential obstacles and customer impacts, but again, they are not tied to specific goals. This section also lacks specific timelines and milestones.

Evaluation of the Use of a Surcharge as a Future Tool

The surcharge described in the plan describes a mechanism that would provide additional revenue between rate cases. The Commission intended the plan to include a description of a surcharge that would provide additional revenue to provide financial stability (for example, by achieving a more balanced capital structure and ROR closer to the benchmark) and that MWU would propose at the time of a rate filing.

Commission staff is available to assist MWU and welcomes the opportunity to discuss any questions you may have as you prepare the final financial improvement plan, which is due to the Commission on January 31, 2019.

If you have further questions regarding this letter please contact me directly at (608) 267-0510 or by e-mail andy.galvin@wisconsin.gov.

Sincerely,



Andrew P. Galvin
Acting Administrator
Division of Water, Telecommunications, and Consumer Affairs

APG:bag:jac DL:01668436

cc: Kathy Schwenn, Madison Water Utility