



Public Service Commission of Wisconsin

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Public Service Commission of Wisconsin
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October 19, 2023

Ms. Stacy Grunwald, Clerk-Treasurer
Cleveland Water Utility
P.O. Box 87
Cleveland, WI 53105-0087

Re: Application of the Village of Cleveland, Manitowoc
County, Wisconsin, as a Water Public Utility, for Authority
to Adjust Water Rates

1180-WR-106

Dear Ms. Grunwald:

Public Service Commission (Commission) staff has analyzed the Cleveland Water Utility's (applicant) application for a water rate increase. The Commission received the application on July 31, 2023. The attached proposal contains Commission staff's proposed 2023 test year revenue requirement exhibit (Exhibit) and will serve as the basis for the cost-of-service study. Alex Hanna, rate analyst, will soon develop the cost-of-service study and a proposed rate design. The rate analyst will file a copy of that exhibit in the [Electronic Records Filing](#) (ERF) system separately upon completion. Commission staff will submit both proposals at the public hearing, which will be scheduled at a later date.

In its application, the applicant stated that it filed for the rate increase to meet debt service coverage on general obligation bonds issued in 2022 and additional debt issued in 2023 to finance water main replacement projects in 2022 and 2023, a supervisory control and data acquisition (SCADA) project, and the purchase of water meter endpoints in prior years. In addition, the applicant noted increased operation and maintenance (O&M) costs including the water tower painting in 2020.

The applicant requested a return on net investment rate base of 7.20 percent. The Commission calculates the benchmark rate of return weekly based on a three-month rolling average of municipal bond rates and determines a floor annually. The benchmark rate of return at the time Commission staff finalized the revenue requirement for this case was 6.50 percent. Commission staff estimated the applicant's capital employed in providing public utility service associated with the net investment rate base to be 21.11 percent municipal equity and 78.89 percent long-term debt. The applicant's composite cost of debt is 2.43 percent. A return on rate base of 6.50 percent will provide an adequate return on municipal earning equity and 3.70 times interest coverage. Commission staff considers that this return on rate base will provide the applicant with sufficient earnings to help address future capital and unforeseen operating needs and will also maintain confidence in the applicant's financial integrity without resulting in customer rates that are excessive.

However, Commission staff cautions the applicant that a 78.89 percent debt ratio is too high to provide the degree of financial integrity the applicant requires over the long term and recommends that the applicant reduce its debt ratio to reasonable levels as soon as practical. The Commission generally considers a reasonable municipal capital structure to be roughly 50 percent equity and 50 percent debt.

Schedule 4 of the Exhibit describes Commission staff's proposed adjustments to the revenue requirement that was requested in the applicant's rate application. During the review of the rate application, Commission staff discovered several issues that resulted in additional analysis and require the applicant to take the following action:

- Based on responses to Commission staff's data requests, the applicant reported all plant retirements for water mains, services, and hydrants as Utility Financed Plant in 2022. ([PSC REF#: 480322](#).) The applicant provided updated retirements that included both Utility Financed Plant and Contributed Plant. The applicant should make an entry to correct these retirements in an amended 2022 PSC Annual Report and re-file the report prior to the hearing in this rate case.
- Based on responses to Commission staff's data requests, the applicant estimated all plant retirements for water mains, services, and hydrants as Utility Financed Plant in 2023. ([PSC REF#: 480322](#).) The applicant provided updated retirements that included both Utility Financed Plant and Contributed Plant. The applicant should report retirements as both Utility Financed Plant and Contributed Plant when it files the 2023 PSC Annual Report.
- Commission staff discovered that the applicant reported expenses such as meter testing, Digger's Hotline fees, lawn service, and cross connection inspections in Account 682 (Outside Services Employed). These types of costs are more appropriately classified in Account 640 (Supplies and Expenses). Account 682 should only be used for services that are professional in nature. The applicant should report the costs noted above in Account 640 in its PSC Annual Reports going forward.

Schedule 5 of the Exhibit is the list of depreciation rates that is the basis of Commission staff's estimated depreciation expense for the test year. Some depreciation rates may be different than those previously authorized for the applicant. Commission staff recommends that the Commission certify these depreciation rates for use by the applicant effective January 1, 2023. Please note that the general service and public fire protection rates are typically effective within 90 days of the Final Decision.

The Commission staff Exhibit is intended to provide the Commission with Commission staff's analysis and is not a final decision. After review of the attached Exhibit, the applicant may

Ms. Stacy Grunwald
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present its own case and may submit any additional information it believes to be pertinent to substantiate its position within five business days of the date of this letter. If Commission staff does not receive a response within that time, it will assume the applicant is in agreement with the staff proposal and the Commission staff rate analyst will use the revenue requirement to develop a rate proposal. Please note that this is the applicant's primary opportunity to address any concerns or changes to Commission staff's proposed revenue requirement Exhibit.

In order to receive notification of official correspondence (i.e. data requests, notices, final decisions, etc.), individuals must subscribe to the Applicant ID or PSC Docket. To subscribe, go to the Commission's [ERF](#) system. For help subscribing, go to [Subscribing to Dockets](#).

If you have any questions regarding the above, please contact me. If you have any questions regarding the status of your rate case, please contact Alex Hanna at (608) 267-2336 or by e-mail at Alex.Hanna@wisconsin.gov.

Sincerely,



Kathleen Butzlaff
Audit Manager
Public Service Commission of Wisconsin
Division of Water Applicant Regulation and Analysis
608.267.9817 | Kathleen.Butzlaff@wisconsin.gov

KAB:ams:krl DL:01968349

Attachment

cc: Greg Peterson, CPA, Corson, Peterson & Hamann, S.C.

Ex.-PSC-Revenue Requirement

Cleveland Water Utility

Estimated 2023 Operating Income Statement

Net Investment Rate Base

and 2023 Estimated Revenue Requirement

**Cleveland Water Utility
Estimated Operating Revenues
for the 2023 Test Year**

	Utility Estimates Test Year 2023	PSC Staff Proposed Adjustments	PSC Staff Estimates Test Year 2023
	<u> </u>	<u> </u>	<u> </u>
Unmetered Sales to General Customers	\$ 0	\$ 0	\$ 0
Metered Sales to General Customers:			
Residential	207,141	0	207,141
Multi-family Residential	6,527	0	6,527
Commercial	9,924	0	9,923
Industrial	8,353	0	8,353
Public Authority	14,566	0	14,567
Irrigation	<u>0</u>	<u>0</u>	<u>0</u>
Total Metered Sales	\$ 246,511	\$ 0	\$ 246,511
Private Fire Protection	1,512	0	1,512
Public Fire Protection	99,513	0	99,513
Other Water Sales	0	0	0
Sales for Resale	0	0	0
Interdepartmental	<u>0</u>	<u>0</u>	<u>0</u>
Total Water Sales	\$ 347,536	\$ 0	\$ 347,536
Forfeited Discounts	2,000	0	2,000
Rents of Water Property	0	0	0
Interdepartmental Rents	0	0	0
Other Water Revenues	<u>3,000</u>	<u>0</u>	<u>3,000</u>
Total Operating Revenues	\$ <u>352,536</u>	\$ <u>0</u>	\$ <u>352,536</u>

Cleveland Water Utility
Comparative Income Statement, Net Investment Rate Base, and PSC Adjustments

Net Operating Income Statement:	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Utility Estimates Test Year 2023</u>	<u>PSC Staff Proposed Adjustments</u>	<u>PSC Staff Estimates Test Year 2023</u>
Total Operating Revenues:	\$ <u>331,301</u>	\$ <u>344,094</u>	\$ <u>351,500</u>	\$ <u>352,536</u>	\$ <u>0</u>	\$ <u>352,536</u>
Operating Expenses:						
Plant Operations & Maintenance	145,806	169,456	174,000	131,200	11,112	142,312
General Operating Expenses	137,819	124,526	132,659	145,095	21,673	166,768
Total Operation & Maintenance Expenses	\$ <u>283,625</u>	\$ <u>293,982</u>	\$ <u>306,659</u>	\$ <u>276,295</u>	\$ <u>32,785</u>	\$ <u>309,080</u>
Depreciation	51,046	53,835	59,558	70,515	6,896	77,411
Taxes	36,274	38,961	32,594	41,636	13,424	55,060
Total Operating Expenses	\$ <u>370,945</u>	\$ <u>386,778</u>	\$ <u>398,811</u>	\$ <u>388,446</u>	\$ <u>53,105</u>	\$ <u>441,551</u>
Net Operating Income (Loss)	\$ <u><u>(39,644)</u></u>	\$ <u><u>(42,684)</u></u>	\$ <u><u>(47,311)</u></u>	\$ <u><u>(35,910)</u></u>	\$ <u><u>(53,105)</u></u>	\$ <u><u>(89,015)</u></u>
Net Investment Rate Base:				<u>Utility Estimates Test Year 2023</u>	<u>PSC Staff Proposed Adjustments</u>	<u>PSC Staff Estimates Test Year 2023</u>
Utility Plant in Service				\$ 2,688,524	\$ 388,851	\$ 3,077,375
Less:						
Accumulated Provision for Depreciation				<u>951,297</u>	<u>4,882</u>	<u>956,179</u>
Net Plant in Service				\$ <u>1,737,227</u>	\$ <u>383,969</u>	\$ <u>2,121,196</u>
Add: Materials and Supplies				23,500	0	23,500
Less: Regulatory Liability - pre-2003 Depreciation on Contributed Plant				<u>2,700</u>	<u>0</u>	<u>2,700</u>
Net Investment Rate Base				\$ <u><u>1,758,027</u></u>	\$ <u><u>383,969</u></u>	\$ <u><u>2,141,996</u></u>
 Rate of Return				 N/A		 N/A

Cleveland Water Utility
Estimated Income Statement and Revenue Requirement
for the 2023 Test Year
to Yield a 6.50% Return on the Net Investment Rate Base

	<u>Present</u> <u>Rates</u>	<u>Increase</u>	<u>After Rate</u> <u>Increase</u>
Total Operating Revenues:	\$ <u>352,536</u>	\$ <u>228,245</u>	\$ <u>580,781</u>
Operating Expenses:			
Plant Operations & Maintenance	142,312		142,312
General Operating Expenses	<u>166,768</u>		<u>166,768</u>
Total Operation & Maintenance Expenses	\$ 309,080		\$ 309,080
Depreciation	77,411		77,411
Taxes	55,060		55,060
Total Operating Expenses	\$ <u>441,551</u>		\$ <u>441,551</u>
Net Operating Income (Loss)	\$ <u><u>(89,015)</u></u>		\$ <u><u>139,230</u></u>
 Rate of Return	 <u><u>N/A</u></u>		 <u><u>6.50%</u></u>
 Net Investment Rate Base:			
Utility Plant in Service	\$ 3,077,375		\$ 3,077,375
Less:			
Accumulated Provision for Depreciation	<u>956,179</u>		<u>956,179</u>
Net Plant in Service	\$ <u>2,121,196</u>		\$ <u>2,121,196</u>
Add: Materials and Supplies	23,500		23,500
Less: Regulatory Liability - pre-2003 Depreciation on Contributed Plant	<u>2,700</u>		<u>2,700</u>
Net Investment Rate Base	\$ <u><u>2,141,996</u></u>		\$ <u><u>2,141,996</u></u>

Cleveland Water Utility Schedule of Staff Adjustments

	Adjustments
Utility Requested Rate Increase	\$ 162,488 46.75%
 <u>Adjustments to Expenses</u>	
Acct. 600 - Salaries and Wages	
Utility Estimate	\$ 47,200
Staff Estimate	\$ 58,312
Adjustment	\$ 11,112
Estimate revised based on the Utility's updated estimate of Village salaries for 2023 and allocations to the Utility.	
 Acct. 680 - Administrative and General Salaries	
Utility Estimate	\$ 53,500
Staff Estimate	\$ 70,781
Adjustment	\$ 17,281
Estimate revised based on the Utility's updated estimate of Village salaries for 2023 and allocations to the Utility.	
 Acct. 686 - Employee Pensions and Benefits	
Utility Estimate	\$ 23,500
Staff Estimate	\$ 28,000
Adjustment	\$ 4,500
Estimate revised based on the increased labor costs for the test year.	
 Acct. 689 - Miscellaneous General Expenses	
Utility Estimate	\$ 1,025
Staff Estimate	\$ 917
Adjustment	\$ (108)
Estimate revised to remove the disallowed portion of membership dues related to lobbying activities.	

Cleveland Water Utility Schedule of Staff Adjustments

Depreciation Expense

Utility Estimate	\$ 70,515		
Staff Estimate	\$ 77,411		
Adjustment			\$ 6,896

Estimate revised primarily to reclassify the 2023 activity as a Major Project.

Acct. 408 - Taxes and Tax Equivalent

Utility Estimate	\$ 41,636		
Staff Estimate	\$ 55,060		
Adjustment			\$ 13,424

Estimate revised primarily to reclassify the 2023 activity as a Major Project.

Adjustments to Net Investment Rate Base

Utility Estimate	\$ 1,758,027		
Staff Estimate	\$ 2,141,996		
Difference	\$ 383,969		

Estimate revised primarily to reclassify the 2023 activity as a Major Project.

Adjustment to Return on Ratebase based on requested 7.20% ROR \$ 27,646

Decrease ROR to the 6.50% benchmark \$ (14,994)

Staff Estimated Rate Increase

\$ 228,245
65.96%

**Cleveland Water Utility
Schedule of Water Depreciation Rates
Effective January 1, 2023**

Account Number	Account Title	Depreciation Rate
	SOURCE OF SUPPLY PLANT	
312	Collecting and Impounding Reservoirs	1.70%
314	Wells and Springs	2.90%
	PUMPING PLANT	
321	Structures and Improvements	3.20%
323	Other Power Production Equipment	4.40%
325	Electric Pumping Equipment	4.40%
328	Other Pumping Equipment	4.40%
	WATER TREATMENT PLANT	
334	Other Water Treatment Equipment	6.00%
	TRANSMISSION & DISTRIBUTION PLANT	
342	Distribution Reservoirs and Standpipes	1.90%
343	Transmission and Distribution Mains	1.30%
345	Services	2.90%
346	Meters	5.50%
348	Hydrants	2.20%
	GENERAL PLANT	
391	Structures and Improvements	2.90%
391	Office Furniture and Equipment	5.80%
391.1	Computer Equipment	26.70%
392	Transportation Equipment	13.30%
394	Tools, shop and garage equipment	5.80%
397	Communication equipment	15.00%
398	Miscellaneous equipment	5.80%