



## Office of the Mayor

Paul R. Soglin, Mayor

City-County Building, Room 403  
210 Martin Luther King, Jr. Boulevard  
Madison, Wisconsin 53703  
Phone: (608) 266-4611  
Fax: (608) 267-8671  
mayor@cityofmadison.com  
www.cityofmadison.com

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Contact: Katie Crawley  
608-266-4611

### **Statement of Mayor Paul Soglin on Recent Public Service Commission Ruling on Madison Water Utility Rate Increase**

I am disappointed in the misleading information put out by the Public Service Commission (PSC) regarding Madison Water Utility's (MWU) construction projects and so-called "cost overruns." It is critical that municipal water utilities are able to trust their regulator – the PSC – to treat them fairly and honestly. Unfortunately, recent statements and actions from the PSC have eroded that trust.

- Both the Paterson Street Operations Center and Well 31 were completed within City-approved budgets and contracts. They are not cost overruns.
- Both projects, including all changes in costs, were approved by the Madison Common Council and the Board of Public Works following all City procedures and were completed with the approved budgets.
  - Madison Water Utility complied with all requirements for notifying the PSC of cost increases, as when contaminated soils were discovered. PSC staff told MWU to "proceed with the construction contracts at your discretion."
  - At no point during construction of either project did the PSC express concerns about increased costs. The PSC never told the Utility to consider alternative designs or scopes, stop construction, or seek new project authorization. Instead, the Utility was always told to proceed with construction at its discretion.
- The PSC pointed to construction-related debt as a reason, as one commissioner put it, to "micromanage" the Utility. While the PSC publicly pressures water utilities to increase water main replacements, it does not allow water utilities any path to pay for improving water infrastructure, other than debt financing.

The Madison Water Utility faced a \$6 million cash shortfall at the end of 2017, even though it stayed within its approved operating budget. The shortfall in revenues was principally the result of water conservation measures and heavy summer rains, which reduced lawn watering by customers. A planned increase in water usage rates occurred later than anticipated due to other workload at the Water Utility and due to a greater amount of time for rate review and approval at the PSC, which also contributed to the cash shortfall. Many utilities around the state have been experiencing longer rate reviews from the PSC.

The Common Council and Water Utility Board have oversight procedures in place, and changes are being made to deal with that shortfall. Historically, the Public Service Commission was a fair and politically impartial body that never let political views interfere with its obligation to serve the rate-paying public and the utilities it regulated. Now we see another state agency's misguided efforts to malign Madison in an effort to cover their own agency's poor communication and policies.

Madison is not alone as the victim of the PSC attacking local utilities in an effort to cover its own mistakes. Over the last year, the Public Service Commission has issued reprimands to a dozen water utilities across the state, largely because of construction costs and meter infrastructure upgrades. Eleven of those water utilities are municipally-owned..

Municipal water utilities are not political bodies. They do not have wealthy, powerful stock investors. They serve only their customers – their towns, villages and cities. It is unacceptable that the Public Service Commission would unnecessarily harm the reputations of those utilities because of unclear and inflexible policies.

I am also concerned about a specific request for information from the PSC to Madison Water Utility, buried in the middle of questions pertaining to the utility's rate case. The Commission asked:

"Are Madison Water Utility's employees covered by a union contract? If yes, please provide details about the terms of the contract for 2017 and 2018 regarding wages. Identify the portion of total payroll that is for employees subject to the union contract."

I am not sure what bearing this information could possibly have when it comes to setting water rates in our city.

In conclusion, we acknowledge that the Madison Water Utility must do a better job monitoring revenue projections and actual receipts. The implementation and installation of MUNIS, the new city wide computer accounting system, will greatly assist in this matter (The Madison Water Utility is the last city agency to make the



conversion.) We look forward to working with a PSC that is interested in providing safe affordable water to utility customers without advancing its political agenda. We will continue to challenge the PSC when it steps across the line and that includes this latest maneuver which insinuates that part of the Madison Water Utility challenges relate to the fact that our employees had a union contract.

## **Background**

### **Paterson St. Operations Center**

In 2015, Madison Water Utility sought approval from the PSC for reconstruction of its Operations Center, located at 110 S. Paterson Street, and its Vehicle Storage Building (VSB) across the street. After three months with no response from the PSC, the Utility began construction. Approval was later granted, but the PSC reprimanded Madison Water Utility for moving forward with construction prior to receiving an official Authorization Certificate to Construct.

MWU knew there was likely contaminated soil beneath the VSB from a service station that had been located there before the utility acquired the property in the 1970s. As the VSB phase of the project got underway, it became clear that soil contamination under the existing building was more extensive than initial soil borings had indicated. The cost to remediate the contamination and other construction complications pushed construction costs above what the PSC had originally approved. When it was clear that the PSC construction authorization would be exceeded, Madison Water Utility stopped work and notified the PSC immediately. After receiving no response for two months, Madison Water Utility contacted the PSC again and was told that there was no process to amend the PSC's initial Authorization Certificate to Construct. PSC staff advised the utility to "proceed with the construction contracts at your discretion," which it did.

Original submittal: 6/18/15

PSC Order issued: 1/12/16

Authority for a cost of \$14,190,000

Total project cost submitted to the PSC: \$16,491,732

PSC disallowed: \$2,301,732

### **Well 31**

In 2015, Madison Water Utility sought approval from the PSC for construction of a reservoir and municipal well facility at 4901 Tradewinds Parkway, with the reservoir scheduled for construction in 2015. The Utility's initial cost estimate failed to include the purchase of the land and drilling of the well's bore hole, which had taken place 2 to 5 years prior to construction. The PSC notified the Utility of its error, so MWU submitted detailed documentation of these previously unreported costs, as well as a notice of anticipated additional 2017 construction

costs for the well facility. However, there was no process to add those costs or amend the 2015 Authorization Certificate to Construct. And again, there was no indication of significant concern from PSC staff, who told Madison Water Utility, "You are free to continue the project at your discretion."

Original Submittal: 1/15/15

PSC Order issued: 6/16/15

Authority for a cost of \$6,453,900

Total project cost submitted to the PSC: \$9,852,000

PSC disallowed: \$3,308,100