

**BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN**

Payment in Lieu of Taxes (PILOT) Calculation
For Municipal Utilities

Docket No. 5-GF-215

**THE CITIZENS UTILITY BOARD'S COMMENTS ON
COMMISSION STAFF'S DRAFT REPORT**

On October 2, 2012, Public Service Commission (Commission) staff posted and distributed a draft report entitled, "Investigation into Municipal Utility Payment in Lieu of Taxes (PILOT)" dated September 28, 2012 (PSC REF #: 173567) (Report) in response to the Commission's Notice of Investigation issued February 10, 2012 (PSC REF #: 159510). The Citizens Utility Board (CUB) appreciates the information in the Report and Commission staff's work in responding to the Commission's questions. CUB has also reviewed the comments posted in the above-referenced docket to date and understands that the history and current use of PILOT payments is a complicated issue. CUB does not take a position as to whether any additional action needs to be taken on this issue in this docket, but offers the following comments on the Report with respect to municipal water utilities.

A foundational principle of utility regulation is that utility rates should be based on the reasonable and prudently incurred costs to provide utility service. Rates based on cost of service balance consumers' interest in the lowest possible rates and safe and reliable utility service, and the utility's interest in rate levels which are sufficient to cover the costs of providing utility service. Straying from this foundational principle can upset that balance.

CUB recognizes that Wisconsin is fairly unique in its regulation of municipal water utilities and that the particular PILOT payment structure provided in Wis. Stat. 66.0811(2) and

Wis. Admin. Code ch. PSC 109 is also unique. CUB also recognizes that at least some portion of the PILOT payment does contribute to the utility's costs to provide water service to its customers. With respect to utility rate issues, CUB supports maximum transparency so that customers can be aware of the makeup of the costs they pay for consumption of utility commodities. Thus, CUB supports efforts to explain to ratepayers what impact PILOT and other charges have on their bills. CUB also has some concern with the fact that the PILOT level is tied to infrastructure improvements. The Report raises the concern that water utilities may lose incentive to invest in necessary capital projects for fear of the need to also raise rates due to the increased PILOT payment. (Report, p. 12) Various commenters categorically rejected this concern, but were silent as to the opposite effect. (*See, e.g.*, League of Wisconsin Municipalities Comments, p. 3 (PSC REF #: 174604)) That is, because the PILOT level is based on total utility plant in service, the reliance on PILOT to fund non-utility municipal services could have the unintended consequence of lessening the incentive of municipal water utilities to undertake capital projects at the lowest possible costs. Greater transparency in the PILOT payment amount of each utility would help address these concerns in individual water utility rate cases.

CUB appreciates the Commission's investigation into this issue and its consideration of these comments.

Dated this 19th day of October, 2012.

Respectfully submitted,

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