



AN ALLETE COMPANY



## Rate Review FAQ

### How are utility rates determined?

Like most businesses, utility rates are set taking into consideration normal operating expenses such as labor, fuel and a return on capital investments used to buy equipment. Unlike most businesses, Wisconsin's utilities are state-regulated monopolies. In return for monopoly status, utilities have an obligation to serve all customers. The Public Service Commission of Wisconsin (PSCW) regulates these utilities and their rates. When a utility requests a rate change, the PSCW reviews the request to ensure costs are fair and reasonable. Based on a PSCW audit and customer testimony in public hearings, the PSCW sets utility rates.

Utility rates include an amount that is based on a rate of return for shareholders up to an amount capped by the PSCW. The rate of return for shareholders is not guaranteed but does depend on how well a utility operates. Weather also affects how much energy customers use, which in turn affects the rate of return.

There is a difference between electric and natural gas bills. On electric bills, the cost of fuels (such as coal and natural gas) is figured into rates. Electric rates include the costs to produce, purchase and deliver electricity. For natural gas bills, the rates cover a utility's costs to deliver gas to customers—but not for natural gas as a commodity. That is a separate charge that utilities pass on to customers without a markup.

### What is a utility's authorized "rate of return"?

A utility's authorized "rate of return" is the percent return on shareholder equity that a utility is authorized to recover in utility rates. It is set by the PSCW and is designed to fairly incent sufficient equity investment in Wisconsin utilities while keeping utilities' cost of debt relatively low. Notably, the return is not guaranteed. If the utility does not adequately control costs it will earn a lower return for its shareholders. In recent years, authorized returns in Wisconsin have fallen from over 12% to just above 9%. The level of return allocated to shareholders for Wisconsin utilities is similar to returns approved for utilities in other states. SWL&P is requesting 10.0% return within this case.

### What are the rate adjustments proposed by SWL&P?

In total, the proposed request is an overall increase of 5.9% or approximately \$7.3 million. This results in a 2.2% increase in electric rates, a 17.1% increase in natural gas rates and an 18.0% increase in water rates.

Note: The filing on March 29, 2024 is the start of the rate application with the PSCW. The Company will file a Cost of Service Study and a Rate Design within the next month.

The PSCW will perform its own review and respective adjustments during this summer. The filing is based upon the future cost forecast (2025 test year) and will make necessary adjustments as part of the process. Once the audit is complete, and a final order is received, new rates are estimated to go into effect Jan. 1, 2025.

### How often can SWL&P raise utility rates?

On average Wisconsin utilities file an adjustment every two years with the PSCW. SWL&P's last rate review was requested in 2022 and new rates were effective January 1, 2023.

### Beyond a rate case, what are other reasons my bill can fluctuate?

There could be several reasons why your bill changes from month to month.

1. Weather. In colder months, you may use more natural gas or electricity to heat your home. In the warmer months, you may use more energy to cool your home.
2. Budget Billing. If you are a customer who utilizes budget billing, a review is completed twice per year to see if your budget amount needs to be updated based off the prior 24 months.
3. PCAC and PGA rates. SWL&P purchases its electricity and natural gas. The cost of purchasing these commodities is a large part of a utility's expenses. Within each of SWL&P's rate adjustments, a base cost of energy is calculated. The PCAC (electricity) and PGA (gas) is how regulated utilities like SWL&P reflect ongoing market fluctuations in the cost to purchase energy. The difference between the base cost of energy and the actual cost of energy is passed through to customers on a monthly basis.

### What are the main drivers of this rate increase proposal?

SWL&P's goal is to provide safe and reliable essential energy and water services while striving to keep rates competitive for our customers. Increases are due to safety and reliability improvements across all three utilities. This is resulting in increased depreciation expense and an increase in gross receipts tax due to SWL&P's large capital investment needs. Additional increases are seen in operation and maintenance and interest expenses due to overall inflation. The gas utility also incorporates the proposed recovery of the environmental remediation of a manufactured gas plant (MGP) that SWL&P owned and operated from 1889-1904. SWL&P is requesting to amortize the expense over a 10-year period, starting in 2025. See [www.swlp.com/mgpremediation.com](http://www.swlp.com/mgpremediation.com) for more information on the project.

[More questions >](#)

Larger capital additions within the gas utility include the continuation of the gas infrastructure project, which upgrades lower-pressure mains and services in certain areas around Superior, and the incorporation of the Hammond Avenue Gas Project (5820-CG-107) done in conjunction with the city of Superior's Hammond Avenue reconstruction project. Hammond Avenue is one of the major roadways that runs through the city and will be reconstructed in two phases beginning in 2024.

Within the water utility, SWL&P continues collaboration with the city, county and state to update old water mains while other entities reconstruct roadways throughout its service territory. These projects are incorporated as part of the 30-year water replacement plan. In addition to these projects, SWL&P will replace water mains and services in conjunction with the Hammond Avenue reconstruction project through 2025.

In addition to each utility's larger projects listed above, SWL&P is on a seven-to-ten-year replacement schedule of its fleet vehicles. Between 2024 and 2025, larger purchases are expected to include two electric line trucks and a dump truck among other purchases.

### **Why are the rate changes different for electric, gas & water?**

Each of SWL&P's three utilities—electric, natural gas and water—stand alone financially as each utility is its own unique business with its own unique costs. When SWL&P files an application with the PSCW, it files each utility separately making the rate adjustments all different.

### **How will the change in rates affect my bill?**

SWL&P files with the PSCW in two parts. This first portion determines the overall revenue needs of the company. The second portion, which SWL&P will file in approximately 30 days, will include a proposal of rate changes for each type of customer (residential, commercial, industrial, etc.) (Rate Class and Utility) based on the filing. At that time, SWL&P will estimate the bill impact for each customer class.

The PSCW will review and makes necessary adjustments with any new information during the review process this summer and fall timeframe.

### **How can customers offset the rate adjustments?**

An easy way to offset any increase under the rate adjustments is to conserve energy and water. Sign up for MyAccount to view and manage your energy use, set up usage alerts or threshold notifications, make changes to your account, and view and pay your bill. Small conservation changes can have an impact on your bill. For instance, a leaking toilet can be the most expensive leak in a home, but the least expensive to fix. MyAccount allows you to keep a close eye on your use to help catch instances such as these. Sign up for MyAccount by at <https://www.swlp.com/MyAccount> or call us at 1-800-227-7957 for more information.

SWL&P partners with Focus on Energy to provide customers with information, resources and financial incentives that can help you manage your energy use. Visit <https://focusonenergy.com/> or call us at 1-800-227-7957 for more information.

### **If I am on a fixed income, can I get help to pay my bill?**

You may be eligible for assistance through the Wisconsin Home Energy Assistance Program. Information about these energy assistance programs can be found at [www.swlp.com/CustomerService/EnergyAssistance](http://www.swlp.com/CustomerService/EnergyAssistance). Call us at 1-800-227-7957 for information about programs and resources including payment plans, deferring payment arrangements, and budget billing options that you may be eligible for.

### **Why is there a monthly customer fee for each utility?**

The monthly fee charged to customers is a fee to cover the wires and pipes needed to attach your house to the system. Even if you don't use any energy or water, the fee is in place to ensure you have access to it if you need it.



AN ALLETE COMPANY