



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—costs for providing electric, natural gas and water services to homes and businesses. Unlike most businesses, Wisconsin's utilities are a state-regulated monopoly. 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. 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 customer's 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 PSC 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 10%. The level of return allocated to shareholders for Wisconsin utilities is similar to returns approved for utilities in other states.

What are the rate adjustments proposed by SWL&P?

In total the proposed request is an overall increase of 2.7% or approximately \$3.3 million. This results in a 9.6% reduction in water rates, an 8.7% increase in natural gas rates and a 3.1% increase in electric rates.

Note: The filing on April 29, 2022 is the start of the rate application with the PSCW. The Company will file a Cost of Service Study and a Rate Design respectfully in the next month. The PSCW will perform its own review and respective adjustments during this summer. The filing is based upon the future (2023) and will make necessary adjustments as part of the process. Once the audit is complete, new rates will go into effect January 1, 2023.

How often can SWL&P raise utility rates?

On average Wisconsin utilities file an adjustment every two years with the PSCW. SWL&P provides information to the PSCW on upcoming projects and the most recent expenses but the PSCW has final approval of any rates billed to customers.

SWL&P's last rate review was requested in 2018, with rates going into effect January 1, 2019.

Does the Superior Refinery have anything to do with a reduction to water rates?

Yes. In SWL&P's last rate review, the water utility received a larger increase in rates partially due to a fire that occurred at the Superior Refinery damaging their facility. The temporary loss of SWL&P's largest water customer was challenging, but the Company worked with PSCW staff to develop a plan for ongoing water system maintenance that also protected customers as the refinery was rebuilt. Now, with expected higher water sales SWL&P is asking the PSCW to make a rate adjustment that will lower water rates for all customers.

What is causing the increase in electric and gas?

The requested rate adjustments reflect changes in revenue, expenses and customer base across all three utilities. In order to maintain safe and reliable operations, SWL&P must continuously re-invest in its infrastructure. This rate proceeding includes reliability updates at Company substations, upgrades to the natural gas distribution system, and other routine projects. SWL&P makes upgrades to utility infrastructure to ensure safe and reliable delivery of electric, gas and water services for many years in the future.

Why are the increases different for electric, gas and water?

Each utility (electric, gas and water) must stand as 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.

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

[More questions >](#)

How can customers offset the rate adjustments?

The easiest way to offset any increase under the rate adjustments is to conserve energy and water. A convenient way to accomplish this is to sign up for MyAccount at the SWL&P website. MyAccount allows customers to track their energy and water use in real time. Tracking your use can help isolate any problems or offer ideas for conservation. For instance, a leaking toilet can be the most expensive leak in a home, but the least expensive to fix. Utilizing MyAccount allows you to keep a close eye on your water usage to catch instances such as these.

Customers also can request a free Home Energy Assessment through Focus on Energy, a nonprofit organization that partners with Wisconsin utilities to help customers conserve energy. Contact us at 715-394-2200 to schedule your free home energy assessment. Focus on Energy also offers free energy-saving products and other incentives, such as \$75 toward qualifying smart thermostats that can save up to \$120 annually in heating costs.

When was SWL&P's last rate increase?

SWL&P's last rate increase was January 1, 2019.

Why do I have to pay a monthly fee even if I don't use any energy or water?

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 the water, the fee is in place to ensure you have access to it if you need it.



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