



# Waukesha Water Utility

SERVING WAUKESHA SINCE 1886

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## MEMORANDUM

DATE: September 7, 2010

TO: Common Council

FROM: Daniel S. Duchniak, P.E., General Manager *DSM*

RE: Waukesha Water Supply

I have attached a letter sent by Attorney Donald Gallo to the Department of Natural Resources regarding estimates of the capital costs of water supplies for Waukesha from Milwaukee, Oak Creek and Racine.

It is important to emphasize that these are not the actual costs that the suppliers would charge to Waukesha. ***These are simply estimates of the costs that are involved, not necessarily the costs that Waukesha would pay.*** We will be actively seeking federal grants and other financing options that would help defray the cost. In addition, there are a number of variables that may be considered through a negotiated process. For instance, a supplier may choose to share in the investment in order to gain a valuable long-term water customer like the Waukesha Water Utility. A supplier may also have other customers that would benefit from the infrastructure and may share in the costs.

Waukesha represents a sizable long-term customer for each of these suppliers at a time in which their customer base is shrinking and they are seeking new users to help offset their fixed costs. We expect that a number of factors unique to each supplier will result in healthy competition to meet our water supply needs. It will be impossible to determine what the final cost for Lake Michigan water will be without engaging into negotiations with each of these potential suppliers.

In the coming weeks, it will be our responsibility to assemble a negotiating team to carry out the wishes of the Council. Our intention is to negotiate in good faith to get the best price possible for our customers. After negotiations, final approval of an agreement rests with the Waukesha Common Council. In the meantime, we are openly providing these estimates to the Common Council and to the public for their information.

A summary of our estimates of costs including Operations and Maintenance (O&M) costs follows, along with an estimate of the impacts on the average residential customer of our utility if 100% of the costs were passed through. For instance, if all the estimated costs for a Milwaukee water supply were passed through, without any federal grants, the water portion of an average quarterly residential bill would increase from \$66.85 to \$142.88. That amount would be an additional \$49.55 per quarter if the estimated costs for an Oak Creek supply were passed through, or \$16.52 more per month. If the costs were passed through, the estimates for Racine are \$69.11 more per quarter or \$23.04 more per month, compared to Milwaukee.

Current water portion of average residential bill		\$66.85		
	<b>Estimated capital cost</b>	<b>Average quarterly bill if 100% pass-through without discounts or grants including O&amp;M</b>	<b>Increase per quarter compared to Milwaukee estimate Including O&amp;M</b>	<b>Increase per month compared to Milwaukee estimate Including O&amp;M</b>
<b>Milwaukee</b>	\$164 million	\$142.28		
<b>Oak Creek</b>	\$261 million	\$191.83	\$49.55	\$16.52
<b>Racine</b>	\$312 million	\$211.39	\$69.11	\$23.04
<b>Deep and Shallow Wells</b>	\$189 million	\$155.85	\$13.57	\$4.52
<b>Shallow Wells and Fox River Alluvium</b>	\$184 million	\$154.73	\$12.45	\$4.15
<b>Shallow Wells, Fox River Alluvium and Quarries</b>	\$286 million	\$194.65	\$52.37	\$17.47

We have also included the costs of groundwater options in the table. However, the city must obtain a water supply that is sustainable and reliable for the long term. The deep and shallow groundwater alternatives that have been studied are not as sustainable or as reliable for the long term as a Lake Michigan water supply and will require that the Utility find another new supply sometime down the road as aquifers decline and water quality deteriorates. Because of the environmental impacts of groundwater use in our region, groundwater alternatives also face significant legal questions and challenges. The city is already facing litigation over preliminary test wells. For all these reasons, our application for Great Lakes water concludes that Lake Michigan is the only reasonable water supply alternative for the Waukesha Water Utility.

The cost impact of any new water supply is significant for utility customers so the numbers must be judged in that context. Doing nothing is not an option for our community. The water utility must obtain a new source of water to ensure a reliable, healthy and environmentally sustainable water supply to our residents and employers. After extensive study, we have concluded that a Lake Michigan water supply is the only reasonable alternative. However, we will do everything we can to help negotiate a water supply agreement to present to the Common Council that is cost-effective for our customers.

If you have any questions about this information, please feel free to contact me.