

Internal Monitoring Report

Policy #: O-2D Affordability

Monitoring Frequency: Annual

Date: May 22, 2018

Policy Language:

Madison Water Utility customers will pay an affordable rate for water, including the financing of necessary replacement of water distribution plant and improvements to water treatment.

With a goal of maintaining affordable water rates and funding necessary improvements to the water supply system, Madison Water Utility shall:

1. Maintain its water rates between the 25th and 75th percentile for Class AB utilities (those serving 4,000 customers or more) in Wisconsin.
2. Apply for a necessary rate increase (subject to the adopted City of Madison Budget) that does not exceed an annualized rate of 9% per year. "Annualized rate increase" is defined as the increase beginning from the time when the last rate increase was fully effective to the estimated date the applied-for rate increase is anticipated to become fully effective, apportioned annually.
3. Generate its authorized return on rate base consumption (defined as per F-23 of the Utility's Annual Report to the PSCW). This sets a reasonable return on investment as determined by an outside party, the PSCW. The allowable return on investment is comparable to that of other publically and privately owned utilities in Wisconsin. By maximizing this return, the utility will have revenue necessary and reasonable for reinvestment in system improvements, and operations and maintenance expenses.
4. Petition for water rates that will complement economic growth in Madison.

General Manager's interpretation and its justification:

1. "Water rates" in this context means the average residential customer bill. To make a like-kind comparison, a quarterly billing frequency is used across the board and consumption is assumed to be 18,750 gallons per quarter, which is one of the amounts used by the Public Service Commission of Wisconsin for bill comparisons. Nonresidential water rates cannot be compared on an "apples-to-apples" basis due to differences in meter sizes, water uses, and rate structures. The question of nonresidential water rates relates to paragraph #4 below. The Public Service Commission of Wisconsin sets all class rates based on cost-of-service for a particular class (residential, commercial, industrial and public authority).
2. An annualized rate increase not to exceed 9% means the increase is 9% or less beginning from the date when the last rate increase became fully effective, to the estimated date the applied-for rate increase is anticipated to become fully effective, apportioned annually (subject to the adopted City of Madison Operating Budget).

3. Return on rate base is computed on page F-23 of the Madison Water Utility Annual Report to the Public Service Commission of Wisconsin. Madison Water Utility has a return on rate base authorized by the Public Service Commission of Wisconsin.
4. Water rates likely do not play a large role in private sector economic decisions except in the potential case of water intensive industries. This will be confirmed and monitored through coordination with the City of Madison's planning and economic development staff.

Data directly addressing the General Manager's interpretation:

1. As the attached data show, the City of Madison's average residential customer water bill (if billed quarterly) would be \$74.70. The median is \$82.71. This is within the range prescribed in board policy.

I report compliance.

2. Madison Water Utility's current application for a rate increase will not exceed 9% per year on an annualized basis, beginning from the fully effective date of the last rate increase (September 29, 2015) to the date this increase is expected to become fully effective in fall 2018).

I report compliance.

3. Return on rate base is computed on page F-23 of the 2017 Madison Water Utility Annual Report to the Public Service Commission of Wisconsin. Madison Water Utility currently is authorized for a 6.5% return on its rate base by the Public Service Commission of Wisconsin in its last rate order dated September 28, 2015. The return on rate base for the year ending December 31, 2017 was 2.48%. This was significantly less than the prior year's return on rate base of 5.56%. An application to increase rates was filed with the Public Service Commission in 2017.

I report non-compliance; mitigation is through rate increase application in process.

4. Feedback from the City of Madison Department of Planning and Community and Economic Development indicates that the cost of water has not been raised as a concern for any future development, though large users would be sensitive to any future changes in supply and/or rates. The Water Utility's ability to provide high quality water service is viewed as an advantage.

I report compliance.

Attachment:

Residential Bill Comparison

Residential Bill Comparison
Wisconsin Class AB Utilities

Utility Name	Utility ID	County	Zero Usage Bill	Quarterly Bill (18,750 gallons)	Date Rate Effective	Endnote
Elkhorn Light And Water	1800	Walworth	\$30.00	\$212.50	11/1/2017	1
Howard Village Of Water & Sewer	2620	Brown	\$50.70	\$179.14	11/20/2014	1, 3
Allouez Village Of Water Dept	70	Brown	\$33.00	\$154.65	3/1/2016	3
Menasha Electric & Water Utilities	3560	Winnebago	\$33.00	\$153.00	3/1/2012	1
Oshkosh City Of Water Utility	4480	Winnebago	\$24.00	\$147.25	8/1/2016	1
Marinette Municipal Water Utility	3370	Marinette	\$27.90	\$145.40	4/21/2015	1
Grand Chute Town Of Sanitary Dist 1	2310	Outagamie	\$15.15	\$140.96	11/18/2013	3
Bellevue Water Utility	430	Brown	\$28.74	\$139.93	7/20/2015	1, 3
Appleton Water Dept	190	Calumet	\$21.90	\$135.90	1/1/2018	
De Pere Water Department	1610	Brown	\$24.00	\$135.19	3/22/2011	1
Hartford City Of Utilities	2470	Dodge	\$40.50	\$133.31	1/8/2011	1
Fond Du Lac Water Utility	2010	Fond du Lac	\$44.00	\$130.95	12/18/2015	1
Neenah City Of Water Utility	4030	Winnebago	\$21.00	\$129.94	1/1/2011	1
Two Rivers Water & Light Utility	5990	Manitowoc	\$32.85	\$127.85	1/1/2015	1
Kaukauna Utilities	2800	Outagamie	\$30.75	\$126.25	1/1/2015	1
Marshfield Utilities	3420	Marathon	\$27.60	\$122.85	6/1/2017	
Franklin Municipal Water Utility	2105	Milwaukee	\$25.22	\$121.47	6/23/2016	1, 3
Watertown Water Department	6230	Dodge	\$25.20	\$120.20	4/15/2017	1
Fox Crossing Utilities	3550	Calumet	\$19.20	\$113.02	4/17/2017	1, 3
Pleasant Prairie Vill Of Wtr Uty	4730	Kenosha	\$30.39	\$112.89	6/1/2015	1, 3
Port Washington Mun water Utility	4780	Ozaukee	\$21.75	\$109.25	9/1/2017	1
Wisconsin Rapids Water Works & Lighting	6700	Wood	\$19.11	\$107.86	2/1/2017	1
Caledonia Village of Water Utility	900	Racine	\$21.31	\$100.31	12/6/2017	1, 3
Antigo Utilities	180	Langlade	\$27.18	\$99.18	1/4/2016	1
Beaver Dam Water Utility	400	Dodge	\$18.00	\$97.75	6/12/2017	1
Little Chute Municipal Water Dept	3140	Outagamie	\$19.11	\$96.74	9/29/2015	1
New Berlin Water Utility	4090	Waukesha	\$15.28	\$94.97	1/1/2017	3
South Milwaukee Water Utility	5590	Milwaukee	\$18.54	\$94.54	12/31/2013	
Glendale Water Utility	2260	Milwaukee	\$27.04	\$94.35	1/1/2018	1
Waukesha Water Utility City Of	6240	Waukesha	\$27.00	\$93.00	12/1/2017	
Menomonee Falls Village Of Wtr Uty	3580	Ozaukee	\$11.52	\$92.33	1/1/2017	
Oak Creek Water & Sewer Utility	4310	Milwaukee	\$27.58	\$91.14	11/15/2017	
Milwaukee Water Works	3720	Milwaukee	\$22.48	\$87.48	9/1/2017	1
Ashwaubenon Water And Sewer Utility	255	Brown	\$24.00	\$87.38	6/1/2006	1
Cedarburg Light And Water Commission	1000	Ozaukee	\$27.00	\$87.00	1/1/2015	1
Waukesha Water Utility City Of	6240	Waukesha	\$27.00	\$87.00	12/1/2017	
Sturgeon Bay Utilities	5780	Door	\$24.00	\$85.88	8/30/2013	1
Oconomowoc City Of Utilities	4340	Waukesha	\$23.10	\$85.54	9/16/2011	
Racine Water Works Commission	4900	Kenosha	\$20.88	\$85.38	9/25/2017	
Wauwatosa Water Utility	6320	Milwaukee	\$15.00	\$85.38	11/29/2016	1, 3
Plover Vill Of Mun Wtr Uty	4737	Portage	\$18.00	\$83.06	9/14/2001	1
Greendale Village of Water Utility	2360	Milwaukee	\$20.27	\$82.71	4/1/2017	3
Sparta Municipal Water Dept	5610	Monroe	\$24.75	\$81.50	2/15/2016	
West Allis Municipal Water Utility	6360	Milwaukee	\$21.00	\$81.50	10/1/2017	1, 3
Whitefish Bay Village Of Wtr Uty	6480	Milwaukee	\$20.70	\$76.45	12/1/2017	
Madison Water Utility	3280	Dane	\$17.10	\$74.70	9/29/2015	1

Residential Bill Comparison
Wisconsin Class AB Utilities

Utility Name	Utility ID	County	Zero Usage Bill	Quarterly Bill (18,750 gallons)	Date Rate Effective	Endnote
Lake Geneva Utility Commission	2980	Walworth	\$18.00	\$74.25	3/16/2016	
West Bend City Of Water Uty	6380	Washington	\$20.10	\$73.60	4/1/2011	1
Green Bay Water Utility	2350	Brown	\$15.75	\$72.50	11/5/2015	1
Darboy Joint Sanitary District No 1	1545	Calumet	\$17.51	\$71.89	7/1/2014	
Shawano City of Water & Sewer Utility	5365	Shawano	\$25.50	\$71.75	2/28/2015	1
Grafton Water & Wastewater Utility	2300	Ozaukee	\$20.86	\$71.11	3/20/2018	
Cudahy City of Water Utility	1480	Milwaukee	\$15.75	\$70.75	1/1/2016	
Wausau Water Utility	6300	Marathon	\$16.08	\$70.08	8/1/2017	1
Milwaukee Water Works	3720	Milwaukee	\$17.98	\$69.98	9/1/2017	1
Waunakee Water And Light Commission	6260	Dane	\$20.25	\$69.94	12/1/2015	1
Brookfield Municipal Water Utility	760	Waukesha	\$14.58	\$68.93	12/1/2015	
Stoughton Water Utility	5750	Dane	\$24.00	\$67.13	5/1/2016	1
Menomonie City Of Water Dept	3590	Dunn	\$13.50	\$66.00	12/1/2015	1
Kenosha Water Utility	2820	Kenosha	\$15.15	\$65.15	6/1/2015	1
Stevens Point Mun Water Utility	5690	Portage	\$25.50	\$65.00	5/1/2012	
Oregon Mun Water And Sewer Utility	4440	Dane	\$17.01	\$62.76	12/28/2011	1
Brookfield Municipal Water Utility	760	Waukesha	\$14.58	\$62.61	12/1/2015	
Eau Claire Municipal Water Utility	1740	Chippewa	\$21.00	\$62.25	4/1/2014	1
Verona Water Utility	6100	Dane	\$15.71	\$62.02	3/16/2016	
Fort Atkinson City Of Water Utility	2060	Jefferson	\$17.70	\$61.95	9/1/2013	1
Middleton Municipal Water Utility	3640	Dane	\$13.50	\$60.94	7/1/2015	
Weston Water Utility	6420	Marathon	\$18.00	\$60.31	3/18/2009	
Monroe Municipal Water Utility	3820	Green	\$15.30	\$59.30	3/5/2014	
Beloit Water Utility	455	Rock	\$21.00	\$59.00	5/1/2017	1
Sun Prairie Utilities	5810	Dane	\$17.40	\$58.90	1/6/2016	1
Germantown Water Utility	2210	Washington	\$15.27	\$58.21	12/15/2014	
Fitchburg Water Utility	1990	Dane	\$15.00	\$56.73	6/8/2016	1
Chippewa Falls Dept of Public Utilities	1120	Chippewa	\$19.20	\$56.70	1/1/2015	1
Manitowoc Public Utilities	3320	Manitowoc	\$15.45	\$56.20	6/1/2015	1
Janesville Water Utility	2740	Rock	\$12.90	\$55.40	8/7/2017	
Onalaska Municipal Water Utility	4410	La Crosse	\$16.50	\$54.00	6/10/2016	
Baraboo City Water Works	360	Sauk	\$21.96	\$53.46	1/1/2017	1
Hudson Public Utilities	2630	Saint Croix	\$14.25	\$53.00	10/4/2017	1, 5
River Falls Municipal Utility	5110	Pierce	\$24.00	\$52.83	6/27/2016	1
Milwaukee Water Works	3720	Milwaukee	\$22.48	\$52.23	9/1/2017	1
Sheboygan Water Utility	5370	Sheboygan	\$12.00	\$49.50	5/1/2018	1
La Crosse Water Utility	2920	La Crosse	\$23.18	\$49.43	1/1/2016	
			Median:	\$82.71		
			Average:	\$89.53		

Endnotes:

- 1- Bills do not include Public Fire Protection which the municipality has chosen to direct charge to customers.
- 3- Bills include any applicable Purchased Water Adjustments.
- 5- Hudson Water Utility serves Hudson and North Hudson.