

Internal Monitoring Report

Policy #: O-2D Affordability

Monitoring Frequency: Annual

Date: May 28, 2019

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 12,000 gallons per quarter, which is one of the amounts used by the Public Service Commission of Wisconsin for bill comparisons and is close to the average quarterly use by Madison residential customers. 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, multifamily, 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) is \$79.56 and puts Madison in the 75th percentile for Wisconsin. However, many utilities in the comparison are billing for fire protection as a separate direct charge to customers, or collect public fire protection on the property tax bills (a "municipal charge"). With the latest rate order, MWU no longer charges for fire protection separately. Instead, public fire protection is now included in the monthly service charge for water billed to customers. This inconsistency between utilities in how fire protection is charged makes it difficult to compare water rates.

I report compliance.

2. In the fall of 2017, Madison Water Utility filed for an overall increase of 26 percent, but the Public Service Commission advised the utility to increase that initial request in order to generate more funds to provide sufficient bond coverage. MWU re-filed in the spring of 2018 seeking a 32 percent increase, and the rate order that went into effect November 2, 2018 was an overall revenue increase of 30.6 percent. This is a 9.88 percent annualized rate.

I report non-compliance.

3. Return on rate base is computed on page F-23 of the [2018 Madison Water Utility Annual Report to the Public Service Commission of Wisconsin](#). Madison Water Utility was authorized for a 6.5% return on its rate base by the Public Service Commission of Wisconsin in its rate order dated September 28, 2015. The return on rate base for the year ending December 31, 2018 was 2.67%.

I report compliance; mitigation is complete through rate order in effect as of November 2, 2018.

4. 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.

I report compliance.

Attachments:

Residential Bill Comparison

Public Fire Protection Charges for Wisconsin Class AB Utilities