

<b>Water Utility Board Policy</b>			
Title:	<b>Affordability</b>		
Policy Number:	<b>O-2D</b>	Adopted:	May 24, 2011
Category:	Outcomes	Revision #/Date:	1/ November 26, 2013

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.

The utility has embarked on a plan to replace plant that has reached the end of its useful life. As a result, both the utility's cost of debt service and its Payment In Lieu of Taxes (PILOT) to the City of Madison has become the largest cost centers within the utility's annual operating budget. In addition, the utility has begun to install water treatment facilities to address problems with iron, manganese and volatile organic compounds (VOCs) at affected unit wells.

The replacement of aged plant and the addition of water treatment facilities have received the support of the City of Madison and the customers of the Utility.

Unlike other city utilities and enterprises, the utility needs to apply for its rate increases to the Public Service Commission of Wisconsin (PSCW). This requires considerable preparation on the part of utility staff and the duration of several months. Unlike most government entities, water rate increases are not done each year. In order to better inform the customer regarding increased costs, it is preferable to annualize a rate increase so that customers can compare the utility's costs to other government and utility costs.

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 25<sup>th</sup> and 75<sup>th</sup> 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.