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August 27, 2013

**VIA EMAIL ONLY – WATER@CITYOFMADISON.COM AND AROBB@MADISONWATER.ORG**

Madison Water Utility Board Members  
Water Utility Conference Rooms A and B  
119 East Olin Avenue  
Madison, WI 53713

RE: Proposed Rate Increase

Dear Board Members:

We represent Dolores Kester in the above matter. If you recall, Ms. Kester, along with many other residents, requested that the Board adopt an opt-out option rather than requiring the installation of "Smart Meters." Tom Heikkinen and you were quite cooperative in that matter which was ultimately adopted by the Public Service Commission. My client is hopeful that you will be equally cooperative regarding the proposed rate increase.

As I am sure you are aware, the public reaction to this proposal is quite negative, to say the least. The *Wisconsin State Journal* in its lead story today confirms that if the proposed 22% rate hike is approved, the average household bill would increase from about \$336 to \$410. This would mean that the Utility's last five rate increases would raise rates a total of 75% since 2006. There is no public or private budget that can even come close to this increase.

In your packet tonight is an independent auditor's report which contains the following facts:

- ✓ Operating revenues increased \$1.846 million dollars or 6.6% in 2012 as compared to 2011.
- ✓ Operating income increased \$2.73 million dollars or 31.4% in 2012 as compared to 2011.
- ✓ Operating income increased 5.2% in 2011 as compared to 2010. Therefore, the rate of increase for the operating income of the Utility was about six times higher in 2012, as compared to 2011.

I have had a very brief period of time to review the financial data that supposedly justifies this dramatic rate increase proposal. However, I do have these questions and observations which I am sure you will consider in the next few months:

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1. In light of the fact that the last rate increase of 9% became effective on January 1, 2012, is it justified to propose such a substantial rate increase in such a short period of time?
2. In the Budget Summary for the Water Utility for 2012, it states as follows:  
  
“The Utility plans to file a formal 12% rate increase application with the Public Service Commission in October 2012. The revenue in the 2013 operating budget request includes the 12% rate increase beginning with the August, 2013 customer billing.”  
  
What happened to this proposal and could it be financially feasible for the Utility to now request a 12% rate increase as opposed to 22% since that was its previous plan?
3. The Utility is selling its bonds at approximately 12.3% - an amazing rate of return in this market. It is difficult to imagine that the Utility is in financial trouble.
4. What capital improvements envisioned by staff exceeds regulatory standards? What is the price tag for each of these capital improvements?
5. The Utility stipulated with Clean Wisconsin as part of the previous rate increase that seasonal rates for peak consumption would be a part of its 2013 rate case application. Has that study been completed?
6. In that same Stipulation, a number of water conservation measures were to be taken by the Utility. What is the status of those measures?
7. As of March 31, 2013, capital expenditures totaled about \$3.8 million dollars compared to the budget of \$27.8 million dollars for the 2013 fiscal year. I think the staff needs to explain why it is necessary to borrow that much in excess of what has been spent.
8. I note in your “Budgeting Monitoring Report” on page 8, it states that if municipal water utilities were paying the equivalent of the gross receipts tax which privately owned utilities were paying in 2011, water rate payers would pay between 69% and 74% less for water. It appears, therefore, as if the PILOT program creates a major expense for rate payers who believe that they paying fairly for water services. Is that the case?

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9. It appears as if the independent auditor had a number of questions and concerns. How specifically have they been addressed?
10. If the Utility funds its capital expenses through revenue bonds, why does it have to keep borrowing money from the City in the budget? How much interest does the Utility pay the City for funds that it borrows?

**Conclusion**

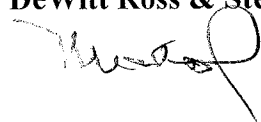
At this point, my client is requesting that you ask the tough questions and “slow this train down.” I note that in your packet, the first item on your Self-Monitoring Checklist is:

“Act as initiator of policy, not merely reactor to staff initiatives.”

My client is confident that you will take that to heart.

Sincerely,

**DeWitt Ross & Stevens s.c.**



Michael R. Christopher

MRC:dso

cc: Mayor Paul Soglin (via email only)  
Common Council Members (via email only)  
Tom Heikkinen (via email only)  
Dolores Kester (via email only)