

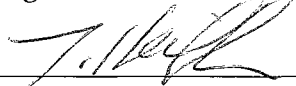
Internal Monitoring Report

Policy #: O-2D Affordability

Monitoring Frequency: Annual

Date: June 24, 2014

I certify that the following information is true.

Signed  _____, General Manager

Policy Language:

Madison Water Utility customers will pay an affordable rate for water, including the cost of financing necessary replacement of water distribution plant and improvements to water treatment. All water utility rates are subject to approval by the Public Service Commission of Wisconsin.

Accordingly,

1. Water rates shall be between the 25th and 75th percentile for Class AB utilities (those serving 4,000 customers or more) in Wisconsin.
2. Applications for water rate increases shall not exceed 9% per year on an annualized basis, subject to the adopted City of Madison Operating Budget.
3. Madison Water Utility shall generate a return on its rate base as authorized by the Public Service Commission of Wisconsin.
4. Water rates shall complement economic growth in the City of 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 matches the City of Madison's consumption. Nonresidential water rates cannot be compared on an "apples-to-apples" basis due to differences in rate structures (class vs. non-class rates, different declining blocks, etc.) 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 \$66.00. This is below the median Class AB water utility bill of \$73.60 (West Bend).
2. Subject to the adopted 2014 City of Madison Operating Budget, Madison Water Utility's pending 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, January 1, 2012 to the estimated date the to be applied-for rate increase is anticipated to become fully effective, January 1, 2015.
3. Return on rate base is computed on page F-23 of the 2013 Madison Water Utility Annual Report to the Public Service Commission of Wisconsin. Madison Water Utility currently is authorized for a 6.9% return on its rate base by the Public Service Commission of Wisconsin in its last rate order dated May 5, 2011. Filing of the 2013 Annual Report is currently pending a review by the Public Service Commission of Wisconsin of meters installed by Madison Water Utility during 1986 through 2012 that were retired as part of the Advanced Metering Infrastructure project.
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 | County | Quarterly Bill (18,750 gallons) | Date Rate Effective |
|-------------------------------------------------------|-------------|------------------------------------|------------------------|
| SUPERIOR WATER LIGHT AND POWER CO | Douglas | \$177.25 | 1/1/13 |
| HOWARD VILLAGE OF WTR & SWR DEP | Brown | \$159.64 | 5/21/12 |
| MENASHA ELECTRIC & WATER UTILITIES | Winnebago | \$153.00 | 3/1/12 |
| ELKHORN LIGHT AND WATER | Walworth | \$148.25 | 7/1/10 |
| GRAND CHUTE TOWN OF SANITARY DIST 1 | Outagamie | \$140.96 | 11/18/13 |
| ALLOUEZ VILLAGE OF WATER DEPT | Brown | \$136.09 | 1/1/12 |
| BELLEVUE WATER UTILITY | Brown | \$135.90 | 1/1/12 |
| APPLETON WATER DEPT | Calumet | \$135.65 | 12/30/10 |
| DE PERE WATER DEPARTMENT | Brown | \$135.19 | 3/22/11 |
| OSHKOSH CITY OF WATER UTILITY | Winnebago | \$134.00 | 4/29/14 |
| HARTFORD CITY OF UTILITIES | Washington | \$133.31 | 1/8/11 |
| NEENAH CITY OF WATER UTILITY | Winnebago | \$129.94 | 1/1/11 |
| TWO RIVERS WATER & LIGHT UTILITY | Manitowoc | \$124.14 | 11/1/13 |
| KAUKAUNA UTILITIES | Outagamie | \$123.00 | 1/1/11 |
| FOND DU LAC WATER UTILITY | Fond du Lac | \$122.89 | 1/1/10 |
| MENASHA - TOWN OF - UTILITY DISTRICT | Winnebago | \$113.02 | 3/1/12 |
| FRANKLIN MUNICIPAL WATER UTILITY | Racine | \$112.93 | 6/2/14 |
| PLEASANT PRAIRIE VILL OF WTR UTY | Kenosha | \$111.92 | 8/1/13 |
| MARINETTE MUNICIPAL WATER UTILITY | Marinette | \$110.63 | 4/1/14 |
| PORT WASHINGTON MUN WATER UTILITY | Ozaukee | \$104.62 | 1/3/11 |
| WISCONSIN RAPIDS WATER WORKS & LIGHTING COMMISSION | Wood | \$101.75 | 6/4/12 |
| ANTIGO UTILITIES | Langlade | \$96.40 | 7/5/12 |
| SOUTH MILWAUKEE WATER UTILITY | Milwaukee | \$94.54 | 12/31/13 |
| MARSHFIELD UTILITIES | Wood | \$94.50 | 7/1/14 |
| LITTLE CHUTE MUNICIPAL WATER DEPT | Outagamie | \$91.13 | 9/9/11 |
| NEW BERLIN WATER UTILITY | Waukesha | \$91.09 | 7/1/14 |
| CALEDONIA VILLAGE OF WATER UTILITY | Racine | \$89.03 | 10/15/12 |
| WATERTOWN WATER DEPARTMENT | Jefferson | \$88.50 | 5/2/14 |
| OAK CREEK WATER & SEWER UTILITY | Milwaukee | \$88.47 | 6/2/14 |
| ASHWAUBENON WATER AND SEWER UTILITY | Brown | \$87.38 | 6/1/06 |
| STURGEON BAY UTILITIES | Door | \$85.88 | 8/30/13 |
| OCONOMOWOC CITY OF UTILITIES | Waukesha | \$85.54 | 9/16/11 |
| WAUWATOSA WATER UTILITY | Milwaukee | \$84.55 | 6/1/14 |
| WAUKESHA WATER UTILITY CITY OF | Waukesha | \$84.28 | 7/11/12 |
| PLOVER VILL OF MUN WTR UTY | Portage | \$83.06 | 9/14/01 |
| SPARTA MUNICIPAL WATER DEPT | Monroe | \$78.72 | 11/15/10 |
| WHITEFISH BAY VILLAGE OF WTR UTY | Milwaukee | \$76.45 | 7/1/12 |
| MILWAUKEE WATER WORKS | Milwaukee | \$75.20 | 6/1/14 |
| WEST BEND CITY OF WATER UTY | Washington | \$73.60 | 4/1/11 |

Residential Bill Comparison

Wisconsin Class AB Utilities

| | | | |
|---------------------------------------|-------------|----------------|---------------|
| RACINE WATER WORKS COMMISSION | Racine | \$72.20 | 8/22/11 |
| DARBOY JOINT SANITARY DISTRICT NO. 1 | Outagamie | \$71.89 | 7/1/14 |
| BEAVER DAM WATER UTILITY | Dodge | \$71.45 | 3/1/05 |
| GLENDALE WATER UTILITY | Milwaukee | \$71.27 | 11/14/11 |
| WEST ALLIS MUNICIPAL WATER UTILITY | Milwaukee | \$70.31 | 7/1/14 |
| GRAFTON WATER & WASTEWATER UTILITY | Ozaukee | \$69.00 | 3/19/14 |
| GREEN BAY WATER UTILITY | Brown | \$66.50 | 3/6/13 |
| MADISON WATER UTILITY | Dane | \$66.00 | 5/9/11 |
| GREENDALE VILLAGE OF WATER UT | Milwaukee | \$65.44 | 6/1/13 |
| BROOKFIELD MUNICIPAL WATER UTILITY | Waukesha | \$65.04 | 9/3/13 |
| STEVENS POINT MUN WATER UTILITY | Portage | \$65.00 | 5/1/12 |
| KENOSHA WATER UTILITY | Kenosha | \$63.20 | 8/1/13 |
| FORT ATKINSON CITY OF WATER UTILITY | Jefferson | \$61.95 | 9/1/13 |
| WAUNAKEE WATER AND LIGHT COMMISSION | Dane | \$61.13 | 7/1/12 |
| SHAWANO CITY OF WATER & SEWER UTILITY | Shawano | \$60.50 | 1/1/09 |
| WESTON WATER UTILITY | Marathon | \$60.31 | 3/18/09 |
| VERONA WATER UTILITY | Dane | \$60.25 | 7/1/11 |
| MILWAUKEE WATER WORKS | Milwaukee | \$60.09 | 6/1/14 |
| STOUGHTON WATER UTILITY | Dane | \$59.85 | 6/1/14 |
| MONROE MUNICIPAL WATER UTILITY | Green | \$59.30 | 3/5/14 |
| BELOIT WATER UTILITY | Rock | \$58.40 | 12/1/10 |
| WAUSAU WATER UTILITY | Marathon | \$57.70 | 7/1/10 |
| EAU CLAIRE MUNICIPAL WATER UTILITY | Eau Claire | \$57.00 | 4/1/14 |
| GERMANTOWN WATER UTILITY | Washington | \$56.46 | 12/15/13 |
| SUN PRAIRIE UTILITIES | Dane | \$54.90 | 7/3/14 |
| MANITOWOC PUBLIC UTILITIES | Manitowoc | \$54.50 | 1/1/12 |
| CHIPPEWA FALLS DEPT OF PUBLIC UTIL | Chippewa | \$50.69 | 12/1/09 |
| BARABOO CITY WATER WORKS | Sauk | \$48.79 | 3/20/12 |
| MILWAUKEE WATER WORKS | Milwaukee | \$48.50 | 6/1/14 |
| HUDSON PUBLIC UTILITIES | Saint Croix | \$48.45 | 7/1/97 |
| LA CROSSE WATER UTILITY | La Crosse | \$48.00 | 1/1/13 |
| LAKE GENEVA UTILITY COMMISSION | Walworth | \$47.10 | 11/26/91 |
| FITCHBURG WATER UTILITY | Dane | \$46.95 | 7/1/12 |
| MENOMONIE CITY OF WATER DEPT | Dunn | \$46.58 | 12/1/02 |
| SHEBOYGAN WATER UTILITY | Sheboygan | \$46.20 | 3/1/14 |
| MIDDLETON MUNICIPAL WATER UTILITY | Dane | \$45.81 | 3/31/11 |
| JANESVILLE WATER UTILITY | Rock | \$44.90 | 1/1/13 |
| ONALASKA MUNICIPAL WATER UTILITY | La Crosse | \$43.00 | 12/7/10 |
| RIVER FALLS MUNICIPAL UTILITY | Pierce | \$42.00 | 4/13/12 |

| | |
|--------------------|---------|
| Median | \$72.90 |
| Average | \$83.83 |
| Standard Deviation | \$33.03 |