



July 7, 2014

Alderperson Chris Schmidt, President
City of Madison Common Council
City-County Building, Room 201
210 Martin Luther King, Jr. Boulevard
Madison WI 53703

Subject: Resolution 34565 Relating to Madison Gas and Electric Company's (MGE)
2015-16 Rate Case Filing

Dear Alderperson Schmidt:

MGE recently became aware of Alder Ahrens' intention to introduce a resolution related to our recently filed 2015-16 rate case. We would like to take this opportunity to provide the Common Council with background on the case and an update.

As a public utility, we have a universal service obligation to maintain a reliable electric grid for everyone's benefit. We also have an obligation to make sure customers pay fairly for the services they use.

Our recently filed 2015-16 rate case includes a request to decrease natural gas rates 2.3% in 2015, to increase electric rates by 2.8%, and to freeze overall rate recovery at that level for 2016, subject to a review of fuel costs. It should be noted that under MGE's filing, the residential customer class will receive a smaller-than-average increase and the small commercial class of customers will see a significant decrease in their respective cost allocations. The proposed changes, if approved by the Public Service Commission of Wisconsin, would take effect January 1, 2015.

Our recent rate case filing also included rate restructuring that was an attempt to provide customers with more accurate price signals about how they use energy. However, after getting input from stakeholders, we have decided to significantly modify our original proposal so we can more carefully consider alternative approaches and designs outside of the rate case process. MGE and the Citizens Utility Board will be working together on these alternatives, and we will also be seeking input from additional stakeholders. We were in contact with Alder Ahrens prior to the introduction of his resolution to inform him of this development.

MGE is removing the establishment of any new energy demand charges from our proposal at this time. We are still proposing an increase to fixed customer charges to reflect the basic costs of obtaining MGE service, independent of how much energy a customer may use. We are asking for an increase from \$0.34/day to about \$0.49/day (an increase of 15 cents/day). This translates from about \$10.50/month to \$15/month. We are also asking for a grid connection charge. For residential customers, this will be about \$4.00 per month. Together, these charges reflect a portion of the costs simply to be connected to the electric grid, independent of how much energy

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a customer uses (e.g., call center, billing, metering, running a distribution line to your home or business). However, we are also proposing a decrease in the per-kilowatt-hour charge for the energy customer's use. As a result, the average residential customer will see very little change to their total bill outside the overall increase.

In some ways, the rate restructuring issues under discussion in the MGE rate case share some common concepts as those dealt with by the Madison Water Utility. The City does not appear to recover the fixed costs of the Water Utility based largely on usage. An examination of a Madison residential water bill reveals that perhaps more than 50% of the bill is fixed charges. By comparison, under MGE's revised proposal, fixed charges on residential customers' bills will account for approximately 21% of their electric bill.

MGE would also like to address the wording of the resolution that suggests our rate proposal will have a negative impact on low-income/low-energy usage customers. Prior to the introduction of the resolution, we made Alder Ahrens aware of provisions of our rate filing that will mitigate any negative impact on low-income customers. We also shared our research that indicates the energy usage of our low-income customers does not vary greatly from our other typical residential customers. In our original filing and continuing as the proposal is being modified, we are proposing a rate available to low-income individuals that will allow them to retain their current rate structure if they choose to do so. If the new rates are approved, we will work with low-income customers to make sure they are on the best rate for their level of usage. We regret the resolution was not modified to acknowledge this fact prior to being introduced and made public.

On a separate issue of possible interest, our rate proposal already "grandfathers" those residential and small commercial customers who already installed solar or other types of distributed generation on their home or business in order to preserve the rate structure residential and small commercial customers based their investment decision on. While not included in its original filing, based on community feedback, MGE intends to request a similar "grandfathering" for larger customers also.

Finally, MGE is proposing to reallocate how costs will be charged to customers and will not make any more money because of the proposed new rate structure. Customers will continue to have significant incentives to save energy, reduce use, and pursue renewable energy projects under our modified rate proposal.

Sincerely,



John A. Sumi
Legislative Affairs Director

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cc: Madison Common Council
City Attorney Michael May
Madison Mayor Paul Soglin