

Internal Monitoring Report

Policy #: O-2D Affordability

Monitoring Frequency: Annual

Date: July 22, 2016

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 \$88.10. This is above the median Class AB water utility bill of \$81.75 (Village of Greendale).
2. Subject to the adopted 2017 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, September 29, 2015 to the estimated date the to be applied-for increase is anticipated to become fully effective, July 1, 2017.
3. Return on rate base is computed on page F-23 of the 2015 Madison Water Utility Annual Report to the Public Service Commission of Wisconsin. Madison Water Utility currently is authorized for a 6.5% return on its rate base by the Public Service Commission of Wisconsin in its last rate order dated September 28, 2015. The return on rate base as computed in the 2015 Annual report was .05% which is attributed in part to the new rates being reflected on the November and December 2015 bills.
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.

Madison Water Utility is also in the process of analyzing how its multi-tiered residential rate structure impacts lower-income households.

I report compliance.

Attachment:

Residential Bill Comparison