



FILED VIA ERF

October 20, 2014

Public Service Commission of Wisconsin  
Water, Compliance and Consumer Affairs Division  
P.O. Box 7854  
Madison, WI 53707-7854

Re: Madison Water Rate Increase Application

Trilogy Consulting prepared and is submitting this application to increase water rates on behalf of the Madison Water Utility, for Test Year 2015.

The Utility is requesting an increase of 30.4% over estimated revenues from water sales at present rates. The requested revenue requirements would provide a 6.50% rate of return on investment. This rate of return is required in order to provide sufficient cash flow for the Utility to finance debt service on existing and anticipated debt issuances. Two alternative long term cash flow scenarios have been submitted with this application; one that assumes the Utility would continue to finance its entire capital improvement program with debt and one that plans for a gradual increase in the portion of the capital improvement program financed with cash flows. The Utility would prefer to decrease its debt financing of capital improvements to reduce the long-term impact on revenue requirements and utility rates, but will need to do so gradually in order to mitigate short-term rate shock.

Since the last increase in water rates (Test Year 2011), sales of water have decreased about 0.9% and operation and maintenance expenses have increased by about 7.0%. However, the major reason for the requested increase is the Utility's ongoing significant investment in its utility plant. Since 2011, the net investment rate base has increased by \$54.2 million, or 49.9%. This has led to an increase of 54.2% in depreciation expense and a 42.9% increase in taxes. The requested return on investment represents a 41.2% increase over the return approved in the last rate case, reflecting a reduction in the requested rate of return, from 6.90% to 6.50%.

Trilogy will be submitting a cost-of-service study and proposed rate design after the revenue requirements have been finalized by PSC staff. The rate design will be partially based on a detailed analysis of customer usage using data collected from the Utility's Advanced Metering Infrastructure system. It is anticipated that each customer class will have separately designed rates and a seasonal rate will be implemented for residential customers.

Sincerely,

*Erik Granum*

Erik Granum, Principal  
Trilogy Consulting, LLC

	2011	2015	Change	Percentage Change
Operating Revenues at Approved Rates	\$29,330,989	\$29,071,550	-\$259,439	-0.9%
Operating Expenses				
Source of Supply	\$155,000	\$148,296	-\$6,704	-4.3%
Pumping	\$3,369,200	\$4,008,722	\$639,522	19.0%
Water Treatment	\$759,000	\$789,252	\$30,252	4.0%
Transmission and Distribution	\$5,285,500	\$5,764,660	\$479,160	9.1%
Customer Accounts	\$692,000	\$677,908	-\$14,092	-2.0%
Administrative and General	\$3,858,600	\$3,718,785	-\$139,815	-3.6%
Total Operation and Maintenance	\$14,119,300	\$15,107,622	\$988,322	7.0%
Depreciation	\$3,134,791	\$4,833,934	\$1,699,143	54.2%
Amortization	\$0	\$471,939	\$471,939	
Taxes	\$4,594,405	\$6,563,690	\$1,969,285	42.9%
Total Operating Expenses	\$21,848,496	\$26,977,185	\$5,128,689	23.5%
Return on Investment	\$7,482,493	\$10,568,848	\$3,086,355	41.2%
Total Revenue Requirements	\$29,330,989	\$37,546,033	\$8,215,044	28.0%
Total Increase Over Present Rates			\$8,474,483	30.4%
Net Investment Rate Base	\$108,441,930	\$162,597,666	\$54,155,736	49.9%
Rate of Return	6.90%	6.50%		