

Milwaukee Water Works

Safe, Abundant Drinking Water.

June 26, 2017

Members of the Common Council
City of Milwaukee
200 East Wells Street, Room 205

SUBJECT: Simplified Rate Case
 Common Council File No. 170329

Dear Common Council Members:

Milwaukee Water Works (MWW) is proposing to apply to the Public Service Commission (PSC) for a Simplified Rate Case (SRC) in July. This is a standard administrative process which allows for a 3.0% across-the-board increase to all customer accounts if the utility meets a simple test. The application must be made by July 15, 2017 in order for the rates to take effect on September 1, 2017. The increase cannot be more or less than 3.0%. No hearing is required.

This SRC would increase annual MWW revenue by \$2.7 million and would increase costs to the average residential customer using 15 Ccf of water per quarter by \$1.70 per quarter or \$6.80 per year. The additional revenue is one step toward managing increased costs related to the lead service line replacement ordinance that was adopted by the Common Council last December. Those costs are currently estimated to exceed \$4 million in 2017. It will also help us manage capital costs related to the increased water main replacement cycle that was ordered by the PSC in 2014 and the DNR corrective orders from the sanitary survey of our system in 2016.

We last applied for a SRC of 3.0% in July of 2016. Rates were not increased in 2015. In 2014, MWW underwent a full Conventional Rate Case (CRC) that involved a full review of our finances and a hearing before the PSC. We are nearly complete with requirements that were ordered by the PSC in the 2014 CRC, which means we will be due for another CRC in the near future. The PSC recommends a CRC every other year for utilities our size.

In order to qualify for a SRC, a utility must meet three criteria:

1. The rate of return test:

- If the SRC increase is granted, the rate of return must not exceed the annually updated benchmark rate of return.
- Alternatively, if the SRC increase is granted, the net operating income must not exceed 6% of operations and maintenance expenses.

2. The present rates test:

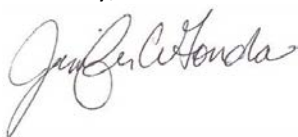
- If the utility's present rates were authorized in a conventional rate case, they must have been in effect for at least a full annual reporting cycle, which is a calendar year. The annual report that covers this calendar year must have been filed with the PSC so the rate of return can be reviewed.
- If the utility's present rates were authorized in an SRC, they must have been in effect for at least 12 months.

3. The last full rate case test:

- For class AB utilities, the requested effective date of the SRC must be within five years of the effective date of the last conventional rate case.

The Milwaukee Water Works meets this test and qualifies for the SRC in 2017. If authorized by the Common Council, we will move forward with the application and notify our wholesale customers accordingly.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jennifer C. Gonda".

Jennifer C. Gonda
Superintendent

JG:sls