



October 1, 2009

RE: Proposal to Provide Professional
Water Rate Analysis Services

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Dear Jim and Mike:

Thank you for inviting Short Elliott Hendrickson Inc. (SEH[®]) to propose professional services for this project. We also appreciate the information that you provided related to this project, which has helped us better understand your requirements and related issues. This proposal responds to your Request for Proposals (RFP) of August 10, 2009, including a brief Qualifications Statement of our assembled project team, and a description of our proposed Scope of Services, Project Schedule and budget information.

We understand the Milwaukee Water Works (MWW) recently filed for approval from the Public Service Commission of Wisconsin (PSC) for authority to increase water rates. MWW requested an overall increase of 28 percent, with a potentially larger increase proposed for wholesale customers. PSC will determine the actual level of the rate change for each retail customer class and wholesale customer after reviewing the application and holding a public hearing. The actual increase to individual customers will vary with water usage and the ultimate rates authorized by PSC.

The City of Milwaukee Water Works wholesale customers (MWC) desire to hire a team of water rate analysts to review the accuracy and appropriateness of this rate increase request. The MWC group includes the following municipalities:

- ◆ Brown Deer
- ◆ Butler
- ◆ Greendale
- ◆ Menomonee Falls
- ◆ Mequon
- ◆ New Berlin
- ◆ Shorewood
- ◆ Wauwatosa
- ◆ West Allis
- ◆ Milwaukee County
Grounds in Wauwatosa.

As you will see in our proposal, we have assembled a very qualified team to assist you with this project. All team members are available to work on the project to meet the anticipated schedule shown in the proposal. Our team's commitment is to assign the right persons with the right skills to your project from start to finish. The team's project manager, Patrick Planton, has dedicated his career to Wisconsin water engineering, and has worked with dozens of Wisconsin water utilities with infrastructure and financial planning. In addition, Mr. Eric Rothstein is a nationally recognized expert in the field of water utility rate analysis and financial planning. Finally, Ms. Lawrie Kobza is an attorney specializing in the field of environmental law, and has extensive experience with Wisconsin water utility legal issues and with PSC.

SCOPE OF SERVICES

The project team will perform the following scope of services to assist the MWC group in reviewing and responding to MWW's conventional rate case application submitted to PSC. The scope of work has been broken down into the following project phases:

<u>Phase</u>	<u>Description</u>
1	Preliminary Review of Submitted Rate Application
2	Review and Comment on PSC Staff Exhibit
3	Assistance with PSC Public Hearing

Phase 1 – Preliminary Review of Submitted Rate Application

During this project phase, PSC water rate staff will be reviewing the submitted rate application information, and will prepare the following documentation for the PSC staff exhibit regarding the MWW rate case:

- ◆ Test Year utility revenue requirement analysis
- ◆ Cost of Service study for wholesale and retail customers
- ◆ Rate Design for wholesale and retail customers
- ◆ Rate Tariff changes needed or requested by MWW

While PSC staff is processing the MWW rate case, the project team will perform the following:

1. Review and comment on the proposed MWW test year revenue requirements as submitted to PSC in the MWW rate adjustment application. Review will include the following items:
 - a. Review of the proposed changes in MWW's revenue requirements since the most recent conventional rate case. Review will include test year revenue requirements (operation & maintenance expenses, depreciation, tax equivalent and return on net investment rate base [NIRB]) that would/could adversely affect MWW wholesale customers. These items could include, but are not necessarily limited to, the change in MWW's rate of return on NIRB (wholesale vs. retail), depreciation expense and tax equivalent charges, and payments to the City's General Fund.
 - b. MWW's projected test year costs for each revenue requirement category as compared to appropriate Wisconsin PSC benchmarks for water utility costs.
 - c. Identification of those changes in MWW's projected revenue requirements that may be inequitable or inappropriate.
 - d. Preparation of a technical memorandum documenting the findings and conclusions of Phase 1 activities.

2. Attend a meeting with the MWC group representatives to present and discuss the findings and conclusions of Phase 1, and recommend actions to be taken (if any) prior to the completion of the PSC staff exhibit on the MWW rate case.

Phase 2 – Review and Comment on PSC Staff Exhibit

1. Review and comment on PSC staff exhibit regarding the MWW rate case. Review will include the following items:
 - a. Test Year utility revenue requirement analysis
 - b. Cost of Service study for wholesale and retail customers
 - c. Rate Design for wholesale and retail customers
 - d. Rate Tariff changes needed or requested by MWW
2. Provide comparative analyses of the MWW and PSC staff positions as well as develop independent alternative analyses on specific, material rate-making issues. Alternative analyses will evaluate the potential exclusion of selected revenue requirements, development of alternative cost allocations, and consideration of rate structure options. Summarize analyses by identifying the revenue requirement allocation consequences of alternative approaches to the most significant rate-making issues.
3. Prepare a technical memorandum documenting the findings and conclusions of the PSC staff exhibit review, and summarizing the MWW/PSC comparative alternative analyses.
4. For PSC proposed water rate and/or tariff changes that negatively impact MWC group members, advise the group representatives regarding potential negotiating strategies and/or alternatives.
5. For PSC proposed water rate and/or tariff changes that are deemed discriminatory, inappropriate or inequitable to wholesale customers, at the direction of the MWC group communities, work with representatives of MWW and PSC to resolve these issues before the scheduled MWW rate case public hearing. Activities to be performed may include:
 - a. Prepare materials with preliminary documentation and analysis demonstrating the inequity of the cost allocation factors/methods (for purposes of discussions with the MWW – but not to a level of detail required for a contested rate case).
 - b. Attend up to two meetings with MWW staff to discuss rate case issues.
 - c. Contact/meet with PSC water rate staff to discuss the MWW rate case issues and obtain staff input on MWC group concerns and positions.
 - d. Providing one or more written status briefings and attend up to 3 meetings with the MWC group representatives to provide updates on the status of discussions.

Phase 3 – Assistance with PSC Public Hearing

1. If the MWW rate case issues are resolved or if the MWC group communities decide not to pursue a contested case, the project team will attend and comment on behalf of the MWC group at the MWW rate case public hearing for a noncontested rate case.

ANTICIPATED PROJECT SCHEDULE

Recent PSC rate adjustment cases have typically taken 4-6 months from the submission of the application to the PSC approval of the rate order. Rate cases from the largest state water utilities (e.g., Milwaukee and Madison) have often taken much longer than this. The City of Madison currently has a rate adjustment application under consideration by PSC, and there are 35 other Wisconsin water utilities with rate cases currently being processed by PSC water rate staff.

Based on this PSC backlog of water utility rate cases to be reviewed, we anticipate that any public hearing on MWW's rate case will not occur until sometime in 2010. In addition, if the MWW rate case is contested (which could be likely by several different parties), a public hearing may not occur until well into next year.

The services proposed for Phase 1 can be completed within 2-3 months, well in advance of the completion of the PSC staff exhibit. The actual completion schedule of Phase 1 will be dependent on the meeting schedule of our project team with the MWC group representatives.

The schedule of Phase 2 will be dependent on the schedule of the PSC staff in preparing and submitting the draft exhibit for comments. Our project team will initiate activities on Phase 2 upon receipt of the PSC staff exhibit for the MWW rate case, and will be completed prior to the public hearing.

PROJECT TEAM

The three key project team members include Patrick Planton, Eric Rothstein and Lawrie Kobza. **Patrick Planton** is a Wisconsin registered professional engineer who has worked with dozens of Wisconsin water utilities on a variety of drinking water engineering projects, including utility rate studies and financial planning. The largest water rate study he worked on was the City of Chicago's water rate study in 1999. Mr. Planton has 27 years of experience in water utility consulting engineering, and holds a Bachelor of Science degree in Civil and Environmental Engineering from the University of Wisconsin-Madison. He also holds a Master of Business Administration from the University of Wisconsin-Oshkosh.

Eric Rothstein is a nationally renowned expert in the field of water, wastewater and storm water utility strategic and financial management, financial capability assessments, development of rates and charges, capital financing, evaluation of public / private partnerships and regionalization. He has held national leadership roles in water and wastewater industry professional societies including the American Water Works Association (Strategic Management Practices Committee, Rates & Charges), and Water Environment Federation (Utility Management Committee), and International Water Association (Economics and Statistics Group).

A partial list of Mr. Rothstein's water utility rate/financial planning experience includes:

- ◆ **Atlanta, Georgia:** Coordinator for City's \$850 million 2004 Water/Wastewater Revenue bond issue
- ◆ **Cleveland, Ohio:** Water and Wastewater Utility Rates
- ◆ **Eugene, Oregon:** Storm water, Transportation, Wastewater System Development Charges (SDCs)
- ◆ **Green Bay Metropolitan Sewerage District:** Strategic financial planning
- ◆ **Honolulu Board of Water Supply:** Water Utility Rates and Water System Facility Charges

- ◆ **Honolulu Department of Environmental Services:** Wastewater Utility Rates and SDCs
- ◆ **Oak Creek Water and Sewer District, Wisconsin,** Wholesale Water Rates
- ◆ **Provo, Utah:** Storm water, Water and Wastewater SDCs
- ◆ **Salem, Oregon:** Storm water, Water and Wastewater Utility Rates and SDCs
- ◆ **Tucson, Arizona:** Water and Wastewater Utility Rates
- ◆ **Winnipeg, Manitoba:** Water and Wastewater Utility Rates

Lawrie Kobza is an environmental attorney with the law firm of Boardman, Suhr, Curry & Field LLP of Madison. Ms. Kobza has worked with dozens of Wisconsin water utilities over the past 20 years on a variety of legal issues, including water rate cases with the PSC. She has worked directly with several utilities in the Milwaukee area, including Oak Creek, Racine, Kenosha, and the North Shore Water Commission, but not with the City of Milwaukee. Ms. Kobza will be available to assist the project team with any specific legal questions and/or issues that may arise as a part of the completion of the proposed scope of services.

MWC RESPONSIBILITIES

The MWC group, at its expense, shall do the following in a timely manner so as not to delay the Services.

1. **Information / Reports:** Furnish the SEH project team with the following information, all of which SEH may rely upon without independent verification in performing the Services:
 - a. Historical MWC water utility financial records and annual PSC reports
 - b. Previous PSC rate case documentation
2. **Representative:** Designate a representative for the Project who shall have the authority to transmit instructions, receive information, interpret and define MWC's policies and make decisions with respect to the Services.
3. **Decisions:** Provide all criteria and full information as to MWC requirements for the Project, obtain (with SEH's assistance, if applicable) necessary approvals, attend Project-related meetings, provide interim reviews on an agreed-upon schedule, make decisions on Project alternatives, and generally participate in the Project to the extent necessary to allow the SEH project team to perform the Services.
4. **Other Responsibilities:** Pay directly any required fees associated with the Project.

COMPENSATION

Hourly Basis Option

The MWC and SEH select the hourly basis for payment for services provided by the project team. SEH shall be compensated monthly. Monthly charges for services shall be based on the SEH project team's current billing rates for applicable employees plus charges for any expenses incurred. Current billing rates shall be the Actual Billing Rates of Personnel Method as summarized below.

1. **Actual Billable Rates of Personnel Method** - Applicable billing rates of the SEH project team members shall be based on the actual billable rates of personnel plus the cost of expenses as outlined below.

SEH will provide an estimate of the costs for services in this Proposal. It is agreed that after 90 percent of the estimated compensation has been earned and if it appears that completion of the services cannot be accomplished within the remaining 10 percent of the estimated compensation, SEH will notify the MWC and confer with representatives of the MWC to determine the basis for completing the work.

SEH's estimate of the costs for services in this Proposal is summarized in the table below.

Project Team Billing Rates

Patrick Planton, Project Manager	\$185 per hour
Eric Rothstein, Rate Analyst	\$210 per hour
Lawrie Kobza, Legal Advisor	\$250 per hour
Administrative Services	\$60 per hour

Estimated Project Hours and Fees

Team Member	Estimated Hours	Total
PHASE 1		
Patrick Planton	16	\$ 2,960
Eric Rothstein	13	\$ 2,730
Lawrie Kobza	10	\$ 2,500
Admin	3	\$ 180
Subtotal	42	\$ 8,370
<i>Estimated Expenses</i>		
Meetings		\$ 500

Team Member	Estimated Hours	Total
PHASE 2		
Patrick Planton	60	\$ 11,100
Eric Rothstein	58	\$ 12,180
Lawrie Kobza	48	\$ 12,000
Admin	11	\$ 660
Subtotal	177	\$ 35,940
<i>Estimated Expenses</i>		
Meetings		\$ 2,700

PHASE 3

To Be Estimated after Phase 2

Other Provisions Concerning Payments

1. Invoices will be prepared in accordance with SEH's standard invoicing practices and will be submitted monthly to MWC by SEH, unless otherwise agreed.
2. Invoices are due and payable within 30 days of receipt.

Expenses

The following items involve expenditures made by SEH employees or professional consultants on behalf of the MWC. Their costs are not included in the hourly charges made for services and shall be paid for as described in this Proposal.

1. Transportation and travel expenses.
2. Lodging and meal expense connected with the Project.
3. Report or documentation reproduction expenses.
4. Other special expenses required in connection with the Project.

We appreciate this opportunity to work with the MWC group. Upon review of our proposal, please do not hesitate to contact Patrick Planton at (920) 380-2817 if you have any questions or if you need additional information.

Sincerely,

SHORT ELLIOTT HENDRICKSON INC.



Patrick S. Planton, PE | Principal
Water Practice Director

ms

c: Eric Rothstein, Galardi Rothstein Group
Lawrie Kobza, Boardman Law Firm