

Milwaukee Water Works

Safe, Abundant Drinking Water.

Background information for proposed water rate increase

The Milwaukee Water Works provides safe, abundant drinking water to Milwaukee and 15 neighboring communities. This service protects public health, provides for fire suppression, supports our regional economy, and contributes to the high quality of life we enjoy. Milwaukee is a national leader in producing high quality water and monitoring water quality. We have an ample source – a natural advantage -- in Lake Michigan, and water treated and consumed is returned to the lake. Diligent, efficient, and energy conscious operations and maintenance, and a sound capital improvement program are the basis for this reliable, acclaimed service.

The last rate increase in 2007 was a very modest increase of 6%, yielding a rate of return to the utility of 3.3%. The Public Service Commission of Wisconsin (PSC) recommends a rate of return of 7.5% for municipally-owned drinking water utilities. A 7.5% rate of return would have required a 39% rate increase to customers. Previous rate increases were 3.4% in 2006 and 10% in 2002.

Since 2007 there have been anticipated increases in costs that adversely affect MWW finances

- wages and benefits
- electric power
- fuel
- maintaining aging infrastructure

and also unexpected pressures

- continued decreasing water usage by customers
 - Water usage has decreased 12% in the past three years alone, and is down an additional 2.3% to date this year compared with 2008 at this time
- cross connection control program, an unfunded mandate by the Department of Natural Resources
 - Cost near \$1 million per year
- increases in cost of chemicals used in water treatment
 - 144% overall increase in cost of chemicals from 2008 to 2009, ranging from 45% increase in the cost of ammonia to 261% increase in the cost of fluoride. MWW uses about 18 million pounds of chemicals annually
- increases to Payment in Lieu of Taxes (PILOT)
 - Up \$2.9 million relative to 2006, and climbing
- contribution to the City Pension Fund
 - Unanticipated \$1.1 million expense in 2010

Major and unavoidable planned projects in the near future include replacing the batteries in all 160,000 residential water meters so remote reading can continue and billing will be accurate, installation of backup power at critical facilities so water will be available in the event of localized or widespread

power outages, switchgear upgrades at a water treatment plant to coincide with We Energies system improvements and at pumping stations to ensure reliability.

Cash reserves have been used in recent years in which cash outflows have exceeded revenues: \$2.6 million in 2007, \$9.6 million in 2008. Projections show use of cash reserves of \$4.8 million in 2009 and, without an additional rate increase, \$18 million in 2010, which would deplete the utility's cash reserves.

A rate increase of 20%, effective for water sold after Dec. 30, 2009, would balance the utility's cash flows to about the middle of 2011. A rate increase of about 30%, effective Dec. 30, 2009, followed by regular, modest increases to keep the rate of return stable, would rebuild the utility's cash reserves and facilitate a sustainable payment to the City General Fund of \$3 million per year. This \$3 million would be over and above payments already made to the city, which totaled \$20.6 million in 2008. To maintain the rate of return in future years, this overall rate increase of about 30% should be implemented late in calendar year 2009.

The rate increase will be generated by asking the PSC to develop the rate structure with City of Milwaukee accounts' rates based on a 5.0% rate of return and wholesale accounts based on a 6.5% rate of return. This means wholesale accounts would bear a slightly greater proportion of the overall rate increase than City of Milwaukee accounts. It is estimated that City of Milwaukee accounts would see a 28.5% rate increase and wholesale accounts would see a 36% increase. Suburban retail accounts pay 125% of City of Milwaukee rates by state statute, so the rate would be expected to increase approximately 28.5%. "Estimated" is used until the PSC issues the rate structure.

The projected impact to City of Milwaukee customers (estimated 28.5% increase) is:

	Volume of water billed		Quarterly cost as of 9/1/09	Increase due to proposed rate change	Quarterly bill including proposed rate change	Gallons per penny at proposed rates	Cost per day at proposed rates
	Ccf	Gallons					
Residential (Average Single Family)	17	12,717	\$38.95	\$11.10	\$50.05	2.5	55 cents
Residential (Overall average including up to 4-family)	29	21,694	\$55.03	\$15.68	\$70.71	3.1	78 cents
Commercial (Average)	180	134,650	\$325.68	\$92.82	\$418.50	3.2	\$4.60
Industrial (Average)	1,103	825,501	\$1,675.36	\$477.48	\$2,152.84	3.8	\$23.65

The projected impact to suburban retail and wholesale customers is:

Customer Class	Communities Impacted	Rate Increase
Retail Suburban	Greenfield, Hales Corners, St. Francis, West Milwaukee, portion of Franklin	Estimated 28.5%
Wholesale Suburban	Brown Deer, Butler, Greendale, Menomonee Falls, Mequon, Milwaukee County Grounds, New Berlin, Shorewood, Thiensville, Wauwatosa, West Allis	Estimated 36%

The proposed rate increase will slightly change the proportion of revenue generated by each of these groups, as shown below:

	Millions of Dollars Annually		Percent of Annual Revenue	
	Current Rates	Proposed Rates	Current Rates	Proposed Rates
City of Milwaukee	\$50.2	\$64.2	75.9%	75.4%
Suburban Retail	\$6.9	\$8.9	10.5%	10.4%
Suburban Wholesale	\$9.0	\$12.1	13.6%	14.2%

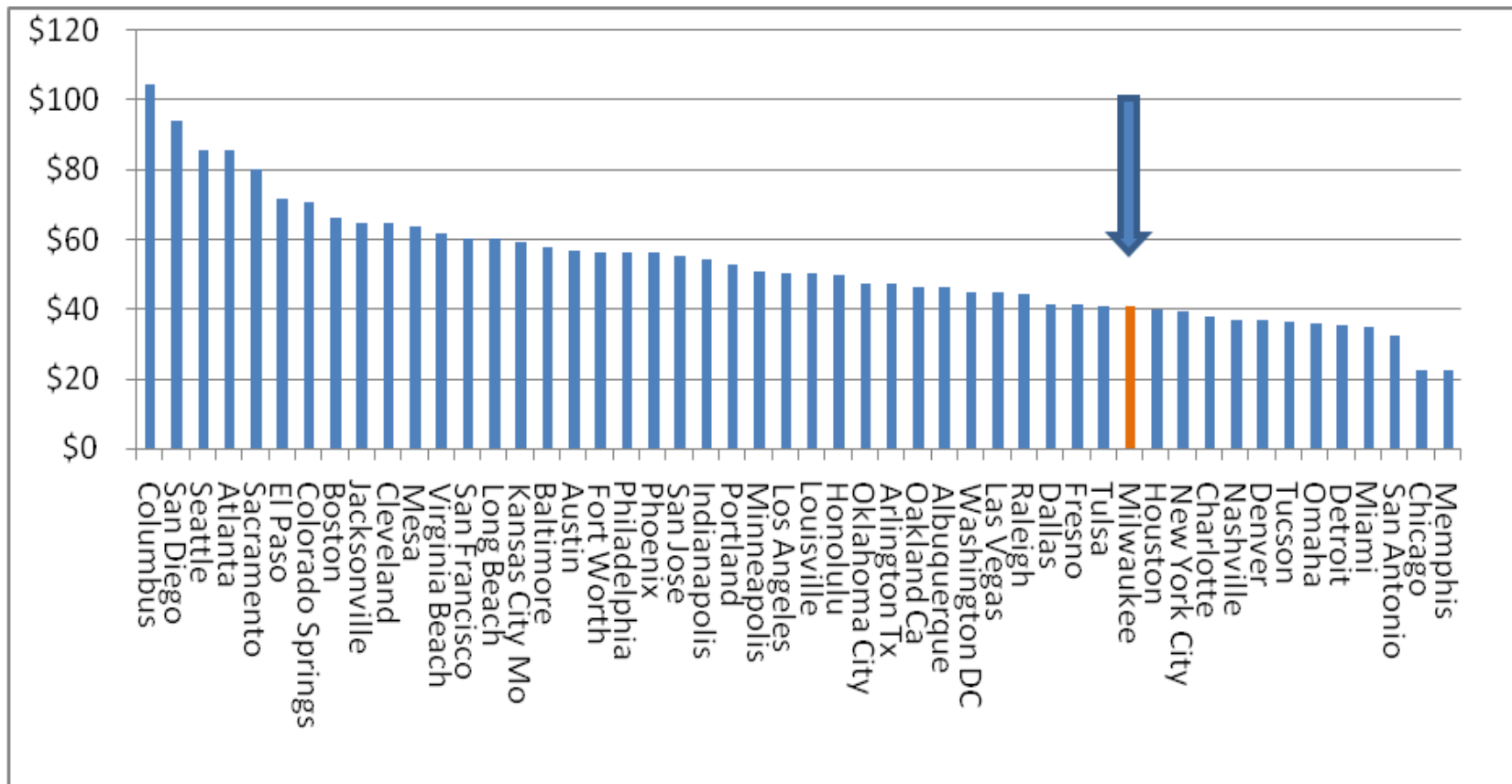
The impact of the rate increase on Milwaukee Water Works' competitive position both nationally and locally is shown on pages 4 and 5, respectively, of this summary.

In summary, the proposed rate increase would generate sufficient revenue for the Milwaukee Water Works to continue to provide safe, high quality drinking water and properly operate and maintain its extensive infrastructure while keeping its pricing competitive both nationally and locally, and facilitate a sustainable dividend from the Milwaukee Water Works to the City General Fund.

The proposed rate increase continues to maintain Milwaukee Water Works' competitive cost structure both nationally and locally. The quarterly cost of water to the average single family customer using 17 Ccf of water was compared.

Nationally: Milwaukee would move from the 46th lowest of 50 cities to 37th lowest of 50 cities with the proposed rate increase in place, assuming no increases by the other 49 cities. (These data are based on the survey of water rates for the 50 largest cities in the U.S. conducted by Badger Meter, Inc. President Richard Meeusen in March 2009, and are used with permission.)

Quarterly water cost to average single family residential account in 50 largest US cities



Locally: Milwaukee would move from 76th lowest of 78 utilities to 59th lowest of 78 utilities in the seven-county area including Kenosha, Milwaukee, Ozaukee, Racine, Walworth, Washington, and Waukesha. These data are based on rate tariffs on the Public Service Commission website in June 2009.

Quarterly water cost to average single family residential account in 7 county region of SE Wisconsin

