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TO: Members of the Sustainable Madison Committee

FROM: Jeanne Hoffman, Facilities and Sustainability Manager

DATE: September 12, 2014

Madison Gas and Electric Company (MGE) filed its initial request to increase electric and natural gas rates with the Public Service Commission (PSC) in April. In the initial request, MGE had proposed a two-year rate proposal that would greatly change how electricity consumption is priced in the MGE service territory. MGE's initial proposal was to impose a three tier rate design for all electric customers which would consist of fixed charges, demand-based charges, and variable energy charges. As part of the new fixed charges, each customer would now be charged a substantial "grid connection service charge" to recover the proportionate share of the cost to maintain the electricity grid, regardless of consumption levels. The end result of this shift in pricing theory would be that the amount charged for actual electrical consumption would be greatly reduced to market levels, while fixed charges would be quite high. Because of this dramatic shift in how electricity consumption would be priced (essentially, actual usage costs would become minimal), the savings from making energy efficiency or renewable energy investments was greatly reduced. This shift would thus threaten the further investment in both energy efficiency upgrades and renewable energy sources, greatly reducing or even eliminating the incentive to decrease overall energy consumption. It is believed that this pricing structure would disproportionately affect low income housing and low energy households, while leading to decreases for large energy consumers.

In June, the City intervened in MGE's rate case, and was later joined by Dane County and the Cities of Middleton and Fitchburg. Other intervening parties include numerous environmental interest groups and renewable energy trade groups, all of whom are equally concerned with the proposed rate design put forward by MGE. On June 27, MGE reached a settlement with the Citizens Utility Board in which it agreed to lessen the impact of its initial rate design for certain residential and commercial customers. When MGE's updated rate proposal was finally introduced in August, while it has lessened the initial impact of the rate changes and abandoned demand-based charges for the time being, it still has shifted cost recovery from a model based upon energy consumption towards one that includes a grid connection charge and low energy costs. As a result, this updated rate proposal, while not as drastic as the initial proposal, will continue to threaten further investment in energy efficiency improvements and renewables, and reduce incentives to cut energy consumption. Hence, while these changes will bring less of a negative impact upon low income housing and low energy households, it is still a dramatic shift in pricing that will lead down the wrong road. It could be expected that if the PSC grants MGE's updated request, that MGE would continue to pursue its initial plan in later rate cases. For these reasons, the City, and most of the intervenors, continue to oppose MGE's updated rate proposal.

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As for the City's involvement in the rate case, following the Council's adoption of RES-14-00541 (file ID No. 34565), the City retained a leading expert in the field of energy pricing, Bill Marcus from JBS Energy, Inc. in Sacramento, CA, to assist the City's challenge to MGE's proposal. Mr. Marcus has submitted testimony before several regulatory bodies on similar issues as being put forward in MGE's rate case. It is hoped that Mr. Marcus' testimony will help persuade the Public Service Commission that MGE's rate proposal in its current form should be denied and that MGE should not shift its electricity pricing to a fixed cost based system. Mr. Marcus' testimony is due on Thursday, Sept. 18 and the public hearing on the rate case will begin on Thursday, October 9. To date, hundreds of residential customers, most of them residents of the City of Madison, have submitted formal statements to the PSC opposing MGE's actions. While MGE has altered their submission in response to the overwhelming public opposition to its plan, MGE continues to assert a position that is not in the City of Madison or its citizens' best interests, and for that reason our efforts will continue.