

# Understanding Utility Rates

## How are MGE rates determined?

Like most businesses, MGE's rates are set on normal operating expenses such as labor, fuel and a return on capital investments used to buy equipment—costs for providing natural gas and electric services to homes and businesses. Unlike most businesses, MGE is a state-regulated monopoly. In return for monopoly status, we have an obligation to serve all customers. Natural gas and electricity are considered vital for the health of our community.

The Public Service Commission of Wisconsin (PSCW) regulates our business and rates. When we request a rate change, the PSCW reviews our request. Based on a PSCW audit and customer testimony in public hearings, the PSCW sets MGE's rates.

MGE's rates include an amount that is based on a rate of return for shareholders up to an amount capped by the PSCW. If the year doesn't go as well as we expect, we earn less than the amount authorized. If the year is better than expected, we earn more. The rate of return for shareholders is not guaranteed but does depend on how well we operate. Weather also affects how much energy our customers use, which in turn affects our rate of return.

There is a difference between natural gas and electric bills. For electric bills, the cost of fuels (such as coal and natural gas) is figured into rates. Electric rates include the costs to produce, purchase and deliver electricity. For natural gas bills, the rates cover MGE's costs to deliver gas to customers—but not for natural gas as a commodity. That is a separate charge that MGE passes on to customers without a markup.

## Why are MGE's energy bills rising?

Rapidly rising fuel prices and the cost of adding infrastructure to meet customers' demand for reliable, high-quality energy are increasing gas and electric bills.

We have held the line on expenses not related to **higher fuel costs** and to **building the infrastructure** to meet energy demands and **provide safe, reliable service**.

## Fuel costs

All fuel costs have increased substantially over the last several years. The hurricanes in 2005 and a tight supply have caused natural gas prices to reach all-time highs.

Natural gas is used increasingly for more electric generation. These increased natural gas prices push up electric generation costs, which are reflected on customers' bills. Rising natural gas prices contributed to nearly 60% of the increase in MGE's electric rates for 2006. The rest is due to infrastructure costs, such as new power plants and American Transmission Co. projects.

Just as your local gas station owner cannot control the cost of gasoline, MGE cannot control the natural gas market. We do work to buy the most affordable natural gas available. Using smart-purchasing strategies, MGE has provided customers with some of the lowest-cost gas in Wisconsin.

Unlike companies that own oil and natural gas resources, MGE and its shareholders do not profit from high energy prices. Our margin comes from the volume of gas flowing through the gas distribution system, not the commodity cost. MGE makes no money on the price of gas. In fact, MGE also is affected by sharply higher fuel costs for electric generation.

## Adding infrastructure

Demand for electricity is growing. We're adding more customers, and our customers are using more electricity. Peak electric use is growing 1.5% to 2% a year. Electric  
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use per home and business continues to increase due to more computers, televisions and other electronics. In addition, Dane County is one of the fastest-growing areas in Wisconsin. The county is expected to add another 100,000 people by 2025. We need to invest in new facilities to maintain electric reliability.

### **Safe, reliable service**

MGE has built reliability into its electric system. Significant portions of our electric service lines are underground. Customers on our electric system experienced the lowest average minutes of interruption of all the major Wisconsin utilities as shown by recent Public Service Commission statistics.

Our natural gas system has a higher standard of maintenance and reliability built into it than many other utilities. MGE's gas system has been built to higher standards to reduce the potential for service interruptions.

### **What are we doing to build up the system?**

Through much of the 1980s and early 1990s, Wisconsin utilities relied on the infrastructure we built during the 1970s. Now we need to build up the system again to meet growing and anticipated demands.

All Wisconsin utilities are now building new power plants, transmission lines and other facilities. Four new electric generation plants went on-line during the summer of 2005 adding a total of 1,250 megawatts to Wisconsin.

The American Transmission Company (ATC) is improving its system to ease the burden on constrained high-voltage transmission lines, maintain reliability and move energy more efficiently. All utility customers pay ATC's costs through rates.

### **What improvements is MGE making for your energy future?**

To meet the need for more electricity and gas, MGE is building more substations, installing new distribution lines and improving our natural gas systems.

We recently completed a new power plant—the West Campus Cogeneration Facility—that is extremely efficient and environmentally friendly. While new power plants are obvious additions to the energy scene, MGE is also making improvements that customers might not notice.

In the last several years, we have increased our substation capacity by 20% to handle increased loads. MGE converted nearly nine miles of its electric distribution lines to higher voltages to better serve customers.

Every year, we not only maintain but also improve our natural gas system to increase its capacity as Dane County grows. These improvements help ensure customers receive the energy needed for their homes and businesses.

### **What can you do to control your energy bills?**

- Visit [mge.com](http://mge.com) to learn ways to monitor and control energy use.
- Residential customers can call the Home Energy Line at 252-7117.
- Business customers can call the Business Help Line at 252-7007.