



**Madison Gas and Electric Company**  
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Public Service Commission of Wisconsin  
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**Jeffrey C. Newman**  
Vice President, Chief Financial  
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**your community energy company**

April 15, 2013

***Via Electronic Regulatory Filing***

Ms. Sandra J. Paske  
Public Service Commission of Wisconsin  
PO Box 7854  
Madison WI 53707-7854

**Subject: Application of Madison Gas and Electric Company for Authority to Freeze  
Electric and Natural Gas Rates - Docket 3270-UR-118**

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Dear Ms. Paske:

Attached for filing with the Commission via the Electronic Regulatory Filing (ERF) system is the Application of Madison Gas and Electric Company (MGE) for Authority to Freeze Electric and Natural Gas Rates.

Over the past few years the frail economy has placed stresses on household budgets and business balance sheets throughout MGE's service territory. While there are clear signs of recovery, the economy is still fragile. The Company believes it can best contribute to the economic recovery by providing rate stability to its customers.

MGE has developed a rate freeze plan that results in no increase in its electric and natural gas rates for 2014. The Company's plan has benefited from the valuable feedback provided by Commission Staff and the principal intervenors in the Company's recent rate cases. In addition to Commission Staff, the Company has met with and discussed the rate freeze plan with the Citizens Utility Board, the Wisconsin Industrial Energy Group, and the University of Wisconsin-Madison.

MGE expects that its costs of providing safe and reliable electric service will increase by about \$21 million in 2014 over the Company's 2013 approved revenue requirement, primarily as a result of the cost of environmental work at the Columbia Generating Station. Nevertheless, the Company believes that a rate freeze is feasible if the Company's belt-tightening is accompanied by Commission approval of the following three rate-setting adjustments that the Company proposes:

First, categorize 100% of the cost of the Columbia scrubber construction project as Allowance for Funds Used During Construction (AFUDC). This will reduce the Company's revenue requirement by approximately \$4 to \$4.5 million, as compared to categorizing 50% of the costs as current return on Construction Work in Progress (CWIP) and 50% as AFUDC.

Second, defer the increase in American Transmission Company LLC (ATC) fees and Midwest Independent Transmission System Operator (MISO) Schedule 26 fees. This will reduce the Company's 2014 revenue requirement by approximately \$3 million.

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Third, apply the Company's deferred account balance credit from the reconciliation of the Company's 2012 fuel cost plan of approximately \$6.2 million to offset an imputed 2014 revenue increase of an equal amount that is confirmed through a Staff summary review of the Company's costs. (If the fuel rule surplus were to be returned to MGE's customers as a credit, customers with higher load factors would receive relatively higher shares. Applying the fuel credit to offset MGE's increased costs will result in the credit effectively being applied pro rata to all customer groups.) MGE proposes that this 2012 fuel rule surplus accrue interest at MGE's weighted cost of capital during 2013.

Commission approval of these three adjustments will offset a significant portion of the revenue deficiency that the Company projects for 2014. To implement the rate freeze plan, MGE will rely on aggressive cost-control measures in order to absorb the remainder of the deficiency.

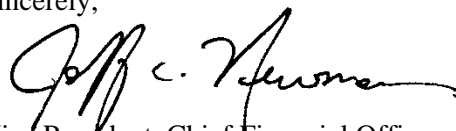
MGE also proposes that the fuel cost plan authorized in MGE's most recent rate case for the 2013 test year and totaling \$106,128,834 be considered the approved fuel cost plan for the 2014 plan year that complies with Wis. Stat. § 196.20(4)(c) and be used for monitoring of MGE's 2014 fuel costs, pursuant to Wis. Admin. Code § PSC 116.03.

The Company also projects that its costs to provide natural gas service are likely to increase about \$1.7 million over its approved revenue requirement for 2013, primarily as a result of infrastructure projects. In order to provide rate stability to its natural gas customers, the Company will forego seeking recovery of these amounts and instead will actively seek out new savings and additional efficiencies in order to offset these increased costs.

MGE believes its rate freeze plan is in the best interests of the Company and its customers. The elimination of a contested rate case proceeding will also allow Commission Staff to devote more time to other matters, though MGE expects that the Commission's consideration of the rate freeze plan will be informed by Staff's summary review of the Company's costs, including its fuel costs.

MGE looks forward to working with the Commission toward the end of delivering to its customers the benefits that the rate freeze plan will provide.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff C. Newman", written in a cursive style.

Vice President, Chief Financial Officer,  
Secretary and Treasurer

ms

Attachment

cc: Service List via email with attachment