PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Power and Light Company for Authority to Adjust Rates in Accordance with its 2013 Fuel Cost Plan — 6680-FR-105

FINAL DECISION

This is the Final Decision in the application of Wisconsin Power and Light Company (WP&L) for a 2013 Fuel Cost Plan under Wis. Admin. Code ch. PSC 116.

Final rate changes are authorized consisting of a $28,647,405 decrease overall for retail electric operations, a 2.85 percent decrease for the fuel cost plan year ending December 31, 2013.

Introduction

On June 1, 2012, WP&L filed an application under Wis. Admin. Code ch. PSC 116 for its 2013 fuel cost plan. WP&L requested a decrease of $24.8 million or 2.5 percent from current retail revenue requirements.

The Commission held hearings for technical issues and for public comment on September 21, 2012.

The Commission considered these matters at its open meeting of October 24, 2012. The parties, for purposes of review under Wis. Stat. §§ 227.47 and 227.53, are listed in Appendix A.

Findings of Fact

1. WP&L is an investor-owned electric and natural gas public utility as defined in Wis. Stat. § 196.01(5)(a), providing electric and natural gas service to south-central and southwest Wisconsin.

2. It is reasonable to set a 2013 fuel plan year cost of monitored fuel of $320,176,646, or $23.28 per megawatt hour (MWh), as shown in Appendix C.

3. It is reasonable to monitor all fuel costs using an annual bandwidth of plus or minus 2 percent.

4. It is reasonable to forecast the fuel cost plan year cost of spot coal, natural gas, and oil used for electric generation purposes and electricity prices by using the October 10, 2012, New York Mercantile Exchange (NYMEX) futures prices and Midwest Independent Transmission System Operator, Inc. (MISO) Indiana Hub futures prices.

5. It is reasonable to use Locational Marginal Price (LMP) as a proxy for WP&L's avoided cost for the purposes of setting parallel generation buy-back rates.

6. It is reasonable to exclude Wisconsin River Power Company (WRPCo) capacity costs from monitored fuel costs and revenue requirement, but allow deferral accounting treatment for WP&L's share of WRPCo capacity costs incurred from January 1, 2013, until its next full rate case, at which time it may request recovery of those deferred costs.

7. It is reasonable to deny deferral accounting treatment for Cross State Air Pollution Rule (CSAPR) compliance costs.

8. It is reasonable to approve rates for electric service for the 2013 fuel cost plan year as shown in Appendix B.

9. It is reasonable to allocate the increases in fuel cost approved by the Commission based on energy usage.

Conclusions of Law

The Commission has jurisdiction under Wis. Stat. §§ 1.12, 196.02, 196.025, 196.03, 196.19, 196.20, 196.21, 196.37, 196.374, 196.395, and 196.40 and Wis. Admin. Code chs. PSC 113, 116, and 134 to enter an order authorizing WP&L to place in effect the rates and rules for electric utility service set forth in Appendix B. Such rates and rules for electric service in Appendix B are reasonable and appropriate as a matter of law.

Opinion

Fuel Costs

The Commission finds that a reasonable 2013 fuel cost plan year level of monitored fuel costs is $320,176,646, which reflects the costs of generation and purchased energy, minus revenues from opportunity sales of energy and capacity. The fuel cost plan year monitored fuel cost divided by the authorized level of native requirements of 13,753,238 MWh results in an average net monitored fuel cost per MWh of $23.28.

It is reasonable to monitor WP&L's fuel costs, using a plus or minus 2 percent bandwidth, as provided in Wis. Admin. Code PSC § 116.06(3).

The fuel cost data in Appendix C shall be used for monitoring WP&L's 2013 non-CSAPR fuel costs.

Spot Coal, Natural Gas, Oil, and Electricity Prices

The Commission accepts the estimated spot coal, natural gas, oil, and electricity prices based on 2013 NYMEX futures prices and MISO Indiana Hub futures prices from October 10, 2012, per WP&L's fuel cost update delayed exhibit.

PgS-1 Issues

During the course of the audit, Commission staff noticed that payments under the Parallel Generation (PgS-1) rate were more than twice the amount per MWh that WP&L was paying for other purchased power, and, in particular, more than twice the price offered for year-round firm energy in response to a recent multi-year Request for Proposal (RFP) issued by WP&L. Commission staff also noted that rates under this tariff had not been updated since 2007, and accordingly, do not reflect the major changes that have occurred in generation markets since then. Commission staff developed a proposed update to this tariff. In lieu of the updated rates under this tariff, Commission staff adjusted the cost of generation under this tariff to reflect the average of the prices offered for 2013 year-round firm energy by the two winning bidders in the RFP described above. This proposed adjustment would have reduced test-year fuel costs by approximately $3,245,000 on a total company basis, or $2,504,000 on a Wisconsin retail basis.

Commission staff developed a new proposed PgS-1 rate based on the average of the most recent 12 months' LMPs, consistent with the way tariff rates are based for this rate for other Wisconsin utilities. Commission staff also developed proposed updated PgS-1 language and methodology.

The Wisconsin Industrial Energy Group (WIEG) and the Wisconsin Paper Council (WPC) requested that the Commission not take up this issue in this proceeding, and instead wait until WP&L's next full case, where the issue could be more fully developed. If the Commission were to adjust the PgS-1 rate in this proceeding, WIEG and WPC requested that the Commission employ gradualism, citing the economic impact on the customers under the PgS-1 rate. The Citizens Utility Board (CUB) supported Commission staff's adjustment, pointing out that PgS-1 customers have already benefitted from buy-back rates being considerably higher than market value for a number of years.

The Commission considers it appropriate to use LMP as a proxy for WP&L's avoided cost for the purposes of setting parallel generation buy-back rates. However, the Commission staff proposal to align WP&L's PgS-1 tariff with its avoided costs, proposed by staff to be effective January 1, 2013, would have increased revenues from the 19 Wisconsin PgS-1 customers by $2,504,000. Because of the economic impacts on the customers under the PgS-1 rate and the relatively small benefit to non-PgS-1 customers, the Commission considers it reasonable to employ gradualism in aligning WP&L's PgS-1 rate with its avoided costs. There shall be no adjustment to WP&L's PgS-1 rates in the 2013 test year. However, PgS-1 rates shall be adjusted over the course of four years, beginning with the 2014 test year, so as to gradually align PgS-1 rates with WP&L's avoided cost over the next five years. As part of its 2014 fuel plan, WP&L shall file PgS-1 rates that eliminate 25 percent of the difference between current PgS-1 rates and the 2014 LMP forecast at the time of that filing. In its 2015 fuel cost plan, WP&L shall file PgS-1 rates that eliminate 50 percent of the difference between PgS-1 rates in effect at that time and the 2015 LMP forecast at the time of that filing. In its 2016 fuel cost plan, WP&L shall file PgS-1 rates that eliminate 75 percent of the difference between PgS-1 rates in effect at that time and the 2016 LMP forecast at the time of that filing. In its 2017 fuel plan, WP&L shall file PgS-1 rates that are equal to the 2017 LMP forecast at the time of that filing. In no instance shall WP&L file PgS-1 rates that are less than the LMP forecast at the time of a filing.

Commissioner Callisto dissents on this issue.

Wisconsin River Power Company Capacity Costs

In its forecast of 2013 monitored fuel costs, WP&L erroneously included approximately $600,000 (total company, $462,000 Wisconsin retail) of capacity costs related to its share of WRPCo. WP&L has erroneously included these capacity costs in monitored fuel costs for a number of years. While these costs are legitimate fuel costs, as capacity costs they are not properly includable in monitored fuel costs under Wis. Admin. Code ch. PSC 116, which is the scope of this proceeding. Commission staff therefore excluded these costs from the proposed forecast of WP&L's 2013 test-year monitored fuel costs and revenue requirement.

WP&L requested that the Commission include WRPCo capacity costs in its 2013 monitored fuel costs, as its application reflected the consistent treatment of those costs in prior proceedings. WP&L also requested that if the Commission were to determine that WRPCo capacity costs should not be included in WP&L's 2013 monitored fuel costs, that in order to determine the rate adjustment in this proceeding, WRPCo capacity costs should be excluded from WP&L's 2012 monitored fuel costs so as to put each year's monitored fuel costs on a consistent basis.

The Commission finds that the WRPCO capacity costs do not meet the legal definition of monitored fuel costs, and adjusting the previously authorized 2012 monitored fuel costs to exclude these costs constitutes retroactive ratemaking. Accordingly, the Commission excludes WRPCo capacity costs from revenue requirements in this proceeding without any adjustment to the previously authorized 2012 monitored fuel costs. Deferral accounting treatment is authorized for WP&L's share of WRPCo capacity costs incurred from January 1, 2013, until its next full rate case, at which time it may request recovery of those deferred costs.

Deferral of Cross-State Air Pollution Rule Compliance Costs

The U.S. Environmental Protection Agency (EPA) issued a final version of the Cross-State Air Pollution Rule (CSAPR) on July 6, 2011, and published it as a final rule in the *Federal Register* on August 8, 2011. This rule replaced EPA's 2005 Clean Air Interstate Rule, and addressed the transport of air pollution across state boundaries of 27 eastern states. CSAPR established new, more stringent levels of allotted sulfur dioxide emission allowances for the states, including Wisconsin and its utilities.

Utilities could meet the new emission standards in several ways, which included retiring older generating plants, changing the dispatch of plants, purchasing power from other utilities, installing pollution-control equipment, and purchasing allowances through a limited trading program. To date, the volumes of emission allowances traded have been very limited. For the 2013 test year, WP&L did not request any dollars for any of the above CSAPR compliance measures, but rather requested deferral accounting treatment for any 2013 CSAPR compliance costs incurred.

On August 21, 2012, the Court of Appeals for the D.C. Circuit vacated and remanded CSAPR back to EPA. Commission staff testified that, in light of the court's actions, it was highly unlikely that CSAPR would be in effect for any part of the 2013 test year, and, given that, questioned the need for deferral accounting treatment of CSAPR compliance costs.

The Commission notes that none of the other major Wisconsin electric utilities have requested deferral accounting treatment for CSAPR compliance costs. In light of the very low probability that CSAPR will be in effect for any portion of the 2013 test year, and that if it were to be reinstated for any portion of the test year WP&L could then apply for deferred accounting treatment, deferred accounting treatment is denied for WP&L's 2013 test-year CSAPR compliance costs.

Sale for Resale

WP&L, in its 2013 fuel cost plan and for the last several years, has shown purchases and sales in the MISO energy market on a net basis. Since WP&L, on an annual basis, is a net purchaser of electricity from the market, energy sales or Sale for Resale (SFRS) would be offset by the larger amount of energy purchases. Therefore, WP&L's 2013 fuel cost plan only shows SFRS revenues associated with a small bilateral sales contract.

The Commission's accounting guidelines require Wisconsin investor-owned electric utilities to account for volumes and dollars of purchased power and SFRS on an hourly basis. That is, if WP&L is a net purchaser for a given hour, it reflects the net MWhs and dollars of purchased power for that hour. Conversely, if WP&L is a net seller for a given hour, it reflects the net MWhs and dollars of SFRS for that hour. WP&L then adds up the hourly purchased power and SFRS amounts on an annual and monthly basis and reports those amounts without any further netting, and showing both purchased power and SFRS amounts.

WP&L agrees to reflect SFRS in its fuel cost forecast in future proceedings in a manner consistent with the way these items are accounted for and reported to the Commission by all investor-owned utilities. WP&L would like to meet with Commission staff in order to develop a clear understanding of how Commission staff wants the information presented. In its brief, WIEG stated it was satisfied with WP&L's agreement to work with Commission staff on this issue and wishes to be included in those discussions. The Commission directs WP&L to work with Commission staff, WIEG, and other interested intervenors to include a transparent forecast of SFRS revenues in WP&L's future fuel cost plans.

Rate Design

Commission staff filed testimony proposing that any decrease in fuel costs from the 2012 fuel cost plan be allocated by means of a flat, across-the-board reduction per kilowatt-hour. This reflects a cost allocation based on energy usage, which is the typical allocation used for fuel costs. WP&L offered a proposed revenue allocation on the same basis as Commission staff's, differing in the forecasted level of test-year revenue requirements and fuel costs. No one has objected to Commission staff's revenue allocation or rate design proposal in this proceeding, and the Commission finds it reasonable. The approved fuel cost reductions by rate class are shown in Appendix B.

Order

1. WP&L shall decrease its rates for its retail electric service in the amount of $28,647,405 for the 2013 Fuel Cost Plan Year ending December 31, 2013.

2. The authorized rate decreases and tariff provisions that restrict the terms of service shall take effect January 1, 2013. The utility shall file these rates with the Commission and place them in all of the utility's offices and pay stations prior to that date.

3. WP&L shall revise its existing rates for electric utility service, substituting the rate increases as discussed in the Opinion section and as shown in Appendix B of this Final Decision. These changes shall be in effect until the Commission issues an order establishing new rates and new tariff provisions.

4. WP&L shall prepare bill messages that properly identify the rates authorized in this Final Decision. WP&L shall distribute the bill messages to customers no later than the first billing containing these rates. WP&L shall file copies of these bill messages with the Commission before it distributes the messages to customers.

5. The electric fuel costs in Appendix C shall be used for monitoring of WP&L's 2013 fuel costs pursuant to Wis. Admin. Code § PSC 116.06(3).

6. All 2013 fuel costs shall be monitored using a plus or minus 2 percent tolerance band.

7. There shall be no adjustment to WP&L's PgS-1 rates in the 2013 test year. However, PgS-1 rates shall be adjusted over the course of four years, beginning with the 2014 test year, so as to gradually align PgS-1 rates with WP&L's avoided cost over the next five years. As part of its 2014 fuel plan, WP&L shall file PgS-1 rates that eliminate 25 percent of the difference between current PgS-1 rates and the 2014 LMP forecast at the time of that filing. In its 2015 fuel cost plan, WP&L shall file PgS-1 rates that eliminate 50 percent of the difference between PgS-1 rates in effect at that time and the 2015 LMP forecast at the time of that filing. In its 2016 fuel cost plan, WP&L shall file PgS-1 rates that eliminate 75 percent of the difference between PgS-1 rates in effect at that time and the 2016 LMP forecast at the time of that filing. In its 2017 fuel plan, WP&L shall file PgS-1 rates that are equal to the 2017 LMP forecast at the time of that filing. In no instance shall WP&L file PgS-1 rates that are less than the LMP forecast at the time of a filing.

8. WP&L shall exclude WRPCo capacity costs from 2013 monitored fuel costs and revenue requirements.

9. WP&L's 2012 monitored fuel costs shall not be adjusted to exclude 2012 WRPCo capacity costs. Deferral accounting treatment is authorized for WP&L's share of WRPCo capacity costs incurred from January 1, 2013, until the start of the test year in its next full rate case.

10. Commission staff, WP&L, WIEG, and any other interested intervenors who participated in this proceeding shall work together to develop an appropriate way to reflect SFRS in future WP&L fuel cost plans.

11. Deferral accounting treatment of any 2013 test-year CSAPR compliance costs is denied.

12. This Final Decision takes effect one day after the date of mailing.

13. Jurisdiction is retained.

Dissent

Commissioner Callisto dissents and writes separately (attached).

Concurrence

Chairperson Montgomery concurs and writes separately (attached).

Dated at Madison, Wisconsin, this 6th day of December, 2012.

By the Commission:

Sandra J. Paske

Sandra J. Paske
Secretary to the Commission

SJP:RJH:TOB:cmk:DL:00604324

See attached Notice of Rights

PUBLIC SERVICE COMMISSION OF WISCONSIN
610 North Whitney Way
P.O. Box 7854
Madison, Wisconsin 53707-7854

NOTICE OF RIGHTS FOR REHEARING OR JUDICIAL REVIEW, THE TIMES ALLOWED FOR EACH, AND THE IDENTIFICATION OF THE PARTY TO BE NAMED AS RESPONDENT

The following notice is served on you as part of the Commission's written decision. This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

PETITION FOR REHEARING

If this decision is an order following a contested case proceeding as defined in Wis. Stat. § 227.01(3), a person aggrieved by the decision has a right to petition the Commission for rehearing within 20 days of mailing of this decision, as provided in Wis. Stat. § 227.49. The mailing date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The petition for rehearing must be filed with the Public Service Commission of Wisconsin and served on the parties. An appeal of this decision may also be taken directly to circuit court through the filing of a petition for judicial review. It is not necessary to first petition for rehearing.

PETITION FOR JUDICIAL REVIEW

A person aggrieved by this decision has a right to petition for judicial review as provided in Wis. Stat. § 227.53. In a contested case, the petition must be filed in circuit court and served upon the Public Service Commission of Wisconsin within 30 days of mailing of this decision if there has been no petition for rehearing. If a timely petition for rehearing has been filed, the petition for judicial review must be filed within 30 days of mailing of the order finally disposing of the petition for rehearing, or within 30 days after the final disposition of the petition for rehearing by operation of law pursuant to Wis. Stat. § 227.49(5), whichever is sooner. If an *untimely* petition for rehearing is filed, the 30-day period to petition for judicial review commences the date the Commission mailed its original decision.[1] The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

If this decision is an order denying rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not permitted.

Revised: December 17, 2008

[1] *See State v. Currier*, 2006 WI App 12, 288 Wis. 2d 693, 709 N.W.2d 520.

APPENDIX A
(CONTESTED)

In order to comply with Wis. Stat. § 227.47, the following parties who appeared before the agency are considered parties for purposes of review under Wis. Stat. § 227.53.

Public Service Commission of Wisconsin
(Not a party but must be served)
610 N. Whitney Way
P.O. Box 7854
Madison, WI 53707-7854

WISCONSIN POWER AND LIGHT COMPANY
Michael Greiveldinger
Paula Johnson
4902 North Biltmore Lane
Madison, WI 53718

GODFREY & KAHN S.C.
Steven A. Heinzen
P. Duncan Moss
P.O. Box 2719
Madison, WI 53701-2719

CITIZENS UTILITY BOARD
Kira E. Loehr
Kurt Runzler
Dennis Dums
16 North Carroll Street, Suite 640
Madison, WI 53703

WISCONSIN PAPER COUNCIL
Earl Gustafson
5485 Grande Market Drive, Suite B
Appleton, WI 54913

WISCONSIN POWER & LIGHT COMPANY

SUMMARY OF ELECTRIC REVENUES
FOR TEST YEAR 2013

Rate Classes	Rate Schedule	Present Revenues	Authorized Revenues	$ Increase	% Increase
General Service	Gs-1	$560,384,328	$547,586,778	($12,797,550)	-2.28%
General Service TOD	Gs-3	8,422,943	8,199,339	(223,604)	-2.65%
General Service Non-metered	Gs-4	238,241	232,988	(5,253)	-2.20%
General Service TOD w/ Water Heating	Gw-1	3,202,733	3,113,466	(89,267)	-2.79%
Controlled Water Heating (17 hr.)	Rw-1	912,946	891,876	(21,070)	-2.31%
Controlled Water Heating (11 hr.)	Rw-3	235,845	228,521	(7,324)	-3.11%
Commercial Service - Standard	Cg-2	81,683,795	79,205,454	(2,478,341)	-3.03%
Commercial Service - TOD	Cg-2 TOD	20,769,341	20,073,337	(696,004)	-3.35%
Industrial Service - Secondary/Primary	Cp-1	262,945,118	253,330,965	(9,614,153)	-3.66%
Industrial Service - Transmission	Cp-2	58,642,486	56,076,294	(2,566,192)	-4.38%
Streetlighting	Ms-1	6,171,025	6,056,546	(114,479)	-1.86%
Decorative Lighting	Ms-2	47,201	46,980	(221)	-0.47%
Area Lighting	Ms-3	2,017,059	1,990,929	(26,130)	-1.30%
Non-Standard Lighting	NL-1	291,808	284,528	(7,280)	-2.49%
Traffic Signal Lighting	Mz-1	6,805	6,805	0	0.00%
Civil Defense & Fire Sirens	Mz-2	50,890	50,353	(537)	-1.06%
TOTAL		$1,006,022,564	$977,375,159	**($28,647,405)**	**-2.85%**

WISCONSIN POWER & LIGHT COMPANY

ADDITIONAL ELECTRIC RATES
FOR TEST YEAR 2013

Rate Class / Description	Rate Schedule	Proposed Surcharges [1]
General Service	Gs-1	($0.002427)
Second Nature	Sn-1	
25% Participation		($0.001820)
50% Participation		($0.001213)
100% & Fixed Participation		$0.000000
General Service TOD	Gs-3	
14-hr On-Peak period option		($0.002427)
12-hr On-Peak period option		($0.002427)
General Service Non-metered	Gs-4	($0.002427)
General Service TOD w/ Water Heating		
14-hr On-Peak period option	Gw-1 (14-hr)	($0.002427)
12-hr On-Peak period option	Gw-1 (12-hr)	($0.002427)
Controlled Water Heating (17 hr.)	Rw-1	($0.002427)
Controlled Water Heating (11 hr.)	Rw-3	($0.002427)
Commercial Service - Standard	Cg-2	
Standard energy option		($0.002427)
Energy limiter option		($0.002427)
Commercial Service - TOD	Cg-2 TOD	
14-hr On-Peak period option		($0.002427)
12-hr On-Peak period option		($0.002427)
Industrial Service - Secondary/Primary	Cp-1	
14-hr On-Peak period option		($0.002427)
12-hr On-Peak period option		($0.002427)
Energy limiter option		($0.002427)
Industrial Service - Transmission	Cp-2	
14-hr On-Peak period option		($0.002427)
12-hr On-Peak period option		($0.002427)
Lighting Options		
Streetlighting	Ms-1	($0.002427)
Decorative Lighting	Ms-2	($0.002427)
Area Lighting	Ms-3	($0.23)
Non-Standard Lighting	NL-1	($0.002427)
Traffic Signal Lighting	Mz-1	($0.002427)

Note [1] The surcharges apply to energy (per kilowatt-hour) except for the Ms-3 surcharge, which applies per fixture per month.

Final Decision Based on Oral Decision 10/24/12

Wisconsin Power and Light Company
6680-FR-105 2013 Fuel Cost Plan
Monitored Fuel Costs

	MWH	Cost	$ / MWH	Cumulative $ / MWH
January	1,194,778	$ 26,584,881	$ 22.25	$ 22.25
February	1,040,226	$ 24,100,961	$ 23.17	$ 22.68
March	1,126,256	$ 26,653,062	$ 23.67	$ 23.01
April	1,050,302	$ 24,975,389	$ 23.78	$ 23.19
May	1,097,747	$ 24,488,469	$ 22.31	$ 23.02
June	1,166,497	$ 27,077,682	$ 23.21	$ 23.05
July	1,303,020	$ 31,798,271	$ 24.40	$ 23.27
August	1,299,658	$ 31,372,809	$ 24.14	$ 23.39
September	1,157,691	$ 26,198,700	$ 22.63	$ 23.31
October	1,109,134	$ 26,273,867	$ 23.69	$ 23.34
November	1,048,886	$ 23,304,430	$ 22.22	$ 23.25
December	1,159,043	$ 27,348,125	$ 23.60	$ 23.28
	13,753,238	$ 320,176,646	$ 23.28	

PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Power and Light Company for Authority to Adjust Rates in Accordance with its 2013 Fuel Cost Plan — 6680-FR-105

DISSENTING OPINION OF COMMISSIONER ERIC CALLISTO

I dissent from those portions of the Commission's *Final Decision* delaying adoption of a Locational Marginal Pricing (LMP) based methodology for use in calculating avoided costs for the purpose of setting parallel generation buy-back rates for Wisconsin Power & Light Company (WP&L).[1] I do so because the utility's existing parallel generation (PgS-1) rate is simply too rich an offering. It overpays a limited number of PgS-1 customers by millions of dollars each year, and causes WP&L's other electric retail and wholesale customers to pay more for utility service as a result. The *Final Decision* needlessly prolongs an obvious subsidy, from which only a few large customers benefit.

WP&L customers that sell energy back to the utility and are paid under the PgS-1 rate get a great deal.[2] They are paid a rate "more than twice the amount per MWh" that WP&L pays for other purchased power, and "more than twice the price offered [by WP&L] for year-around firm energy."[3] The PgS-1 rate, last updated five years ago, is neither based on the utility's actual avoided marginal energy or capacity costs, nor does it incorporate in any way LMP components, as do the parallel generation buy-back rates approved for every other major investor-owned

[1] *See Final Decision* in this docket, Finding of Fact #5, p. 2, PgS-1 discussion, pp. 4-5, and Order Point #7, p. 10.

[2] The *Final Decision* miscasts the staff proposal of moving to an LMP-based avoided cost methodology as "increase[ing] revenues" from the PgS-1 customers. *See id*. at p. 5. The PgS-1 customers get paid for selling energy. Adjusting what the utility pays those customers to better reflect actual avoided costs does not "increase revenues" or raise the rates of PgS-1 customers. It simply pays them less and has the effect of lowering rates and decreasing the revenues required from everyone else.

[3] *See id.* at p. 4.

utility in Wisconsin.[4] Overpayments under the PgS-1 tariff amounted to about $1.5 million in 2011, will reach $3.2 million for 2013 alone, and from 2007 through 2012 will total more than $6.7 million.[5] This isn't free money: WP&L customers have to cover these costs and do so every year in higher rates. Yet the *Final Decision* continues this subsidy *in toto* for 2013, and then enacts a slow shift to an LMP avoided cost methodology that is only finally realized in 2017.

I understand and endorse the wisdom of gradualism in utility rate-making. I do not wish extreme "rate shock" on utility customers. But I believe we have an obligation to effect just and reasonable rates that do not enrich a few customers at the expense of many. Rates that so clearly result in substantial overpayment to a limited group of entities and that so obviously necessitate heavy subsidization from other customers should raise the question of how continuing the PgS-1 offering in its current form is permissible in the absence of a clear legislative directive, regardless of what might be sound regulatory policy. I also question a decision that adopts such a slow and lopsided gradualism for one set of customers (in this case, large, higher energy use customers) yet hands down unusually sudden and steep increases for another class (voluntary green pricing customers of both Madison Gas and Electric Company and Wisconsin Electric Power Company), ostensibly out of fidelity to principles of "full cost" pricing.[6]

---

[4] *See Final Decisions* in dockets 3270-UR-118, 5-UR-104, 6690-UR-120, and 4220-UR-117.

[5] The *Final Decision* remarkably characterizes these subsidy amounts as "relatively small" in justifying their continuation. *See Final Decision* in this docket at pp. 4-5. The total PgS-1 subsidy for 2007 through the coming test year 2013 is nearly $10 million.

[6] At the Commission's open meeting of November 9, 2012, the Commission agreed to a 60 percent rate increase for voluntary green pricing customers of Madison Gas and Electric Company, based on the stated rationale that the Commission staff proposed 20 percent increase did not sufficiently reflect the "full cost" of the program's energy, and that non-participating customers should not be forced to subsidize other customers' voluntary support of renewable energy. It used the same rationale at its open meeting of November 28, 2012, in raising the green pricing rates for Wisconsin Electric Power Company by between 75 percent and more than 100 percent. Consistent with the principles of gradualism, I did not join my colleagues in adopting these increases.

While I am ready to move WP&L's PgS-1 rate to an LMP-based avoided cost methodology in 2013, consistent with Commission staff's recommendation, I also would have agreed to a three-year phase-in, as initially proposed by Commissioner Nowak. Intended or not, the *Final Decision*'s five-year phase-in, with status quo treatment for 2013 and full LMP adoption in 2017, may actually result in a slower shift to LMP-based avoided costs for the PgS-1 rate than would have occurred had the Commission done nothing in this case and instead deferred treatment of the issue until WP&L's next full rate case, as urged by the Wisconsin Industrial Energy Group and the Wisconsin Paper Council.[7] It is beyond dispute that the PgS-1 rate is devoid of any connection to a "true" or "full" avoided cost of procuring energy for the utility, and there is no sound basis to extend the resultant subsidy. We should correct blatant inequities where they surface in utility rate-making. The *Final Decision* willfully ignores our duty to do so.

I respectfully dissent.

EJC:sp:DL: 00610651

[7] WP&L may file its next full rate case as soon as spring 2014 for new rates to take effect in 2015.

PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Power and Light Company for Authority to Adjust Rates in Accordance with its 2013 Fuel Cost Plan — 6680-FR-105

CONCURRING OPINION OF CHAIRPERSON PHIL MONTGOMERY

I join Commissioner Nowak in the majority opinion. I write separately to respond to Commissioner Callisto's dissenting opinion in which he laments that the Commission did not, effective January 1, 2013, as he originally proposed, agree to decrease the PgS-1 tariff, nor did the Commission agree to decrease the tariff over a three-year period, as was suggested during our discussion. Instead, the Commission agreed to a five-year phase-in toward full Locational Marginal Pricing (LMP) for the PgS-1 tariff in 2017.

Like Commissioner Callisto, "I understand and endorse the wisdom of gradualism in utility rate-making. I do not wish extreme 'rate shock' on utility customers."[1] But additional factors come into play when a particular tariff and its design are considered. There are small subsidies which I will tolerate, for a time, and subsidies which Commissioner Callisto will tolerate.[2]

The Commission staff proposal to align Wisconsin Power & Light Company's (WP&L) PgS-1 tariff with its avoided costs, to be effective January 1, 2013, would have increased revenues from the 19 Wisconsin PgS-1 customers by $2,504,000 in order to decrease revenues from WP&L's residential customers by, on average, approximately $2.50, annually, or less than

---

[1] *Dissenting Opinion of Commissioner Eric Callisto* in this docket, p. 2.

[2] *E.g.,* the so-called "green pricing" tariffs to which customers subscribe, under the rubric that they are paying for wind and solar power to light their homes, run their air conditioners, and the like. Except, frankly, that these green pricing customers are not paying for, *in toto*, the green power they are consuming. Other, non-subscribing customers are paying for part of the wind and solar power the utility provides in order to fully pay for what green pricing tariff subscribers purchase.

21 cents a month. One company, Domtar Pulp and Paper, employs parallel generation in order to partially offset its energy bills. Under Commission staff's proposal, over half of the increased revenues would have come from Domtar Pulp and Paper, a member of an industry which "faces intense competition, has been impacted by the recession, and energy costs remain one of the three most significant costs in [the paper] industry. Consequently, any small change in our energy costs has a direct impact on [Domtar Pulp and Paper's] bottom line and competitiveness."[3]

Wisconsin, like the rest of the country, is coming, slowly, out of a deep recession. There is speculation that in 2013 the United States of America may slip back into recession. The paper industry, like many of Wisconsin's manufacturers, has faced significant economic challenges due to aggressive foreign competition and has been hard hit by the recent economic downturn. My suggestion, at the Commission's discussion, was that we address this issue at WP&L's next full rate case. Instead, the majority agreed to a five-year phase-in to LMP-based avoided costs. I fully acknowledge the WP&L's PgS-1 tariff results in a small degree of subsidization and, based on the dismal state of the economy, was willing to allow it to continue, for a time, because of my concern about the wisdom of quickly and drastically increasing costs on 19 large customers in order to save the average residential ratepayer less than a cent a day. By the same token, I have been quite willing to support Commissioner Nowak's efforts to diminish the green pricing subsidies. Is this inconsistent? Perhaps, but then so is any and every deviation from James Bonbright's public utility pricing theories.

[3] Public comment by Dean Curtis, Manager of Purchasing and Stores, Domtar Pulp and Paper, PSC REF#: 172538.