



We Energies  
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Public Service Commission of Wisconsin  
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March 23, 2012

**FILED ELECTRONICALLY**

Ms. Sandra J. Paske  
Secretary to the Commission  
Public Service Commission of Wisconsin  
P.O. Box 7854  
Madison, WI 53707-7854

RE: Joint Application of Wisconsin Electric Power Company and  
Wisconsin Gas, LLC, both d/b/a We Energies, to Conduct a  
Biennial Review of Costs and Rates - Test Year 2013  
Docket No. 05-UR-106

Dear Ms. Paske:

Consistent with Commission practice and its Final Order in Docket No. 05-UR-105, Wisconsin Electric Power Company and Wisconsin Gas, LLC (jointly the "Applicants") request that the Commission open a proceeding to conduct a biennial review of the Applicants' Test Year 2013 costs and rates and to implement whatever adjustments to those rates are found to be just and reasonable.

As explained below, the customer bill impact of the needed increase in base electric rates due to non-fuel costs is 3.6% in both Test Year 2013 and 2014 if the Commission agrees to the Applicants' proposal to deliver the tax benefits arising from its Rothschild biomass project to customers over the next two years. In addition, the Applicants' need for this base electric rate increase is driven almost entirely by previously authorized capital investments in its system totaling over \$3.7 billion -- investments that provide reliable service to its customers and fulfill regulatory mandates.

The Applicants are also filing, as required by recently modified Wis. Admin. Code Ch. PSC 116, a fuel cost plan that indicates an increase in fuel rates in 2013 compared to the fuel rates approved in 6630-FR-103. This is a preliminary look at our 2013 fuel costs and we will provide a more definitive estimate later in the year as updated information becomes available.

The Applicants' direct case consists of the testimony and exhibits of eight witnesses: Mr. David Ackerman, Mr. Joel Gaughan, Mr. David Hughes, Mr. Paul Kharouf, Mr. Allen

Leverett, Mr. Tom Metcalfe, Mr. Michael Mueller and Ms. Mary Wolter, as well as the filing requirements set forth in the Commission's directive dated April 4, 1995, and certain prefiled data request responses, including the Must-Run analysis as required by Order Point 8 in Docket No. 6630-FR-103.

A copy of the material filed today is being provided electronically to all persons who sought full party status in Docket No. 05-UR-105. However, from this point forward, the Applicants will only serve parties admitted to this specific proceeding. Cost of service and rate design analysis, testimony and exhibits will be submitted no later than May 1, 2012.

### **Requested Changes in Rates**

The Applicants' filings support a Wisconsin jurisdictional 2013 rate increase of \$172.6 million or 6.2% for its electric operations. This electric rate increase due to non-fuel costs would be offset by \$73.3 million if the Commission adopts the Applicants' proposal to provide a bill credit to customers to reflect the proceeds of a renewable energy tax grant made possible by a recent change in federal tax law. The overall proposed customer bill impact would be \$99.3 million, or 3.6% in 2013. The Applicants are also seeking a step increase in rates of \$37.4 million in 2014 to reflect two renewable energy projects going into service, including the Rothschild biomass project. These projects combined with a reduction in the renewable energy tax grant bill credit would result in a 2014 customer bill impact of 3.6%.

The Applicants are requesting a rate decrease of \$1.2 million or 0.2% for Wisconsin Electric gas operations for 2013 and a rate decrease of \$15.9 million, or 2.3% for Wisconsin Gas for 2013. The Applicants are not requesting any rate adjustments for either gas utility in 2014. The Applicants propose to increase steam utility rates by \$1.3 million or 6% and \$1 million or 7% for the Valley and Milwaukee County steam utilities, respectively. The increases in 2014 would be \$1.3 million or 6% for Valley, and \$1 million or 6% for Milwaukee County.

### **Drivers and Cost Management**

This case is largely a continuation of the Applicants' alternative rate proposal that was approved last year in Docket No. 05-UR-105 which held non-fuel electric base rates flat for 2012. Factors that drove the revenue deficiency identified in that docket are unchanged and are driving the revenue deficiency in 2013. In fact, more than 80% of the requested 2013 increase in electric rates due to non-fuel costs is a result of reliability, environmental and renewable projects undertaken by the Applicants and previously approved by this Commission. The remainder of the request is driven by taxes other than income taxes and customer service projects and working capital.

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As it has always done in the past, the Applicants continue to prudently manage their costs. We have been able to operate our system in a way that has resulted in essentially no increase in day to day operations costs since our 2010 rate proceeding. Our proposal also reflects a change in tax law which allows us to seek a Treasury Cash Grant and provide those funds to customers over a two-year period. The attached testimony and exhibits demonstrate that the Company's requested increases will result in just and reasonable rates while we continue to provide safe and reliable service in an environmentally responsible manner.

Please direct any inquiries regarding this filing to Mr. Jim Schubilske at 414-221-3893.

Sincerely,

A handwritten signature in black ink, appearing to read "Roman A. Draba", with a stylized, flowing script.

Roman A. Draba  
Vice President  
Regulatory Affairs and Policy