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Public Service Commission of Wisconsin
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PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Public Service Corporation for its Electric
Distribution System Modernization and Reliability Project

6690-CE-198

FINAL DECISION

On October 31, 2012, pursuant to Wis. Stat. § 196.49 and Wis. Admin. Code ch. PSC 112, Wisconsin Public Service Corporation (WPSC) filed an application with the Commission for authority to construct electric distribution system improvements at various locations in its electric distribution service territory. WPSC proposes to construct the facilities to improve the reliability of electric service provided to its customers. The estimated cost of the proposed project is \$222,514,879, including Allowance for Funds Used During Construction (AFUDC).

The application is GRANTED, subject to conditions.

Introduction

A Notice of Proceeding in this docket was issued on December 21, 2012, and a Notice of Prehearing Conference was issued on January 25, 2013. A Prehearing Conference was held on February 6, 2013.

By Order dated January 9, 2013, the Administrative Law Judge granted the intervention requests of Citizens Utility Board, Inc. (CUB), and the NorthEast Wisconsin Building and Construction Trades Council (NEWBCTC).

The Commission held technical and public hearings in this docket, even though they are not required by law. The hearings were held because the Commission was aware of interest in

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the project. The hearings were held in Madison on May 7, 2013. The Commission conducted its hearings as Class 1 contested case proceedings, pursuant to Wis. Stat. §§ 196.491(3)(b) and 227.44.

The issue for hearing, as stated in the Amended Prehearing Conference Memorandum dated February 28, 2013, was:

Should the Commission grant a Certificate of Authority for the project, pursuant to Wis. Stat. §§ 1.12, 196.025 and 196.49, and Wis. Admin. Code ch. PSC 112?

Prior to the hearing, the Commission provided an opportunity for the public to submit comments regarding the proposed project via the public comment form on the Commission's web page, or by U.S. mail. Additionally, an opportunity was provided to the public to testify or submit written comments at the hearings. All public comments received regarding the proposed project are included in the hearing record.

Initial briefs were filed by WPSC and CUB on May 30, 2013. Reply briefs were filed on June 7, 2013.

The Commission discussed the record in this matter at its open meeting of June 27, 2013.

Findings of Fact

1. WPSC is an electric public utility engaged in the generation and distribution of electricity in the state of Wisconsin. WPSC's proposed project consists of the construction of electric distribution system improvements at various locations in its electric distribution service territory to improve the reliability of electric service provided to its customers, at an estimated cost of \$222,514,879, including AFUDC.

2. Completion of the proposed project will not substantially impair the efficiency of the service that WPSC provides.

3. Completion of the proposed project will not provide facilities unreasonably in excess of WPSC's probable future requirements.

4. Subject to the relevant conditions described in the Opinion section, neither energy conservation, renewable resources, nor other energy priorities listed in Wis. Stat. §§ 1.12 and 196.025 would be a cost-effective alternative to the proposed project.

5. Subject to the certification conditions described in the Opinion section, as the parts of the proposed project are placed in operation, the additions to WPSC's cost of service associated with the part of the project will be proportionate to the increase in value or available quantity of the applicant's service.

6. No unusual circumstances suggesting the likelihood of significant environmental consequences are associated with the proposed project.

7. Authorization of the proposed project is in the general public interest.

8. Alternatives to the proposed project have been considered, but no other reasonable alternatives to the proposed project exist that could provide adequate service in a more reliable, timely, cost-effective, and environmentally responsible manner.

Conclusions of Law

1. WPSC is a public utility as defined in Wis. Stat. § 196.01(5)(a).

2. The Commission has jurisdiction under Wis. Stat. §§ 1.11, 1.12, 196.02, 196.025, 196.395, and 196.49, and Wis. Admin. Code chs. PSC 4 and 112, to issue a Certificate and Order authorizing WPSC, as an electric public utility, to construct and place in operation the facilities described in this Final Decision, subject to conditions stated in this Final Decision.

3. The estimated gross cost of this project exceeds the threshold of utility projects requiring Commission review and approval under Wis. Admin. Code § PSC 112.05.

4. The application is a Type III action under Wis. Admin. Code § PSC 4.10(3) and requires neither an environmental impact statement nor an environmental assessment.

Opinion

Project Description, Purpose, Schedule, and Cost

WPSC proposes to improve electric distribution system reliability over a five-year period starting in 2014 by annually addressing 200 to 300 miles of its overhead electric distribution system. To improve reliability, WPSC proposes to replace sections of existing overhead primary voltage electric distribution facilities with underground facilities, install distribution automation equipment, or both. Engineering and design for each construction season will occur in the year prior to the year of construction. When complete, WPSC estimates that the proposed project will reduce its annual System Average Interruption Duration Index (SAIDI) by 20 to 25 percent.

The locations of the proposed electric distribution system improvements are focused on areas and facilities with the poorest reliability. Over the five-year program, WPSC states that it will improve 1,400 circuit miles of the worst-performing overhead electric circuits by installing 1,000 to 1,250 miles of underground lines, about 700 miles of which will be conversions from overhead to underground construction. The estimated cost of the proposed project is \$222,514,879, detailed as follows:

Description	Amount	Amount
Project Planning	\$1,100,000	
Engineering and Design	28,600,000	
Real Estate	3,310,000	
Environmental	5,540,000	
Support Services	30,880,000	
Installation	118,850,000	
Removal and Restoration	29,720,000	
Subtotal		\$218,000,000
AFUDC	4,514,879	
Total Project Cost		\$222,514,879

In 2012, WPSC conducted four pilot projects to test methods and processes that were expected to be implemented for the proposed project.

WPSC estimates that the annual rate impact of the proposed project, assuming a five-year construction period, will peak at about \$30 million. WPSC states that the cost of the proposed project would result in an increase of \$4.34 or 4.36 percent for a typical residential customer.

Intervenor CUB’s Position

CUB notes that over the last seven years, only 19 out of 440,000 WPSC electric customers have filed complaints with the Commission regarding the reliability of WPSC’s service. CUB suggests that, although improvements to WPSC’s electric service reliability should be pursued, it is not clear from the record that the proposed project is the best alternative. As discussed below, CUB contends that WPSC has not adequately studied alternatives to the proposed project.

CUB states that over time, the proposed project will add \$222.5 million to WPSC’s revenue requirement. To reduce increases to WPSC’s retail rates, CUB suggests that the Commission either:

- authorize the proposed project over a period of ten years rather than five as proposed by WPSC; or,
- authorize the first year of the project at the scope and cost proposed by WPSC, and require that WPSC prepare an alternatives analysis and submit it to the Commission with its first annual report.

CUB suggests that the alternatives analysis would include, alone or in combination:

- WPSC's Hazard Tree Program;
- hardening existing infrastructure;
- adding more distribution automation;
- creating more jobs by adding more service and repair crews;
- adding new service center locations; and,
- modifying the proposed project, such as halving the size and scope or extending the project timeline.

CUB suggests that WPSC's alternatives analysis should also contain:

- cumulative capital investments;
- present value of life cycle costs;
- cumulative reductions in outage frequency and duration; and,
- the cost per minute of outage reduced for each of the options analyzed.

CUB states that the Commission could then decide whether to continue the proposed project or pursue an alternative, and, if the proposed project is continued, whether the timeframe should be extended.

If the Commission authorizes the proposed project, either in part or in full, CUB suggests that the Commission require WPSC to provide additional information in its annual reports, including:

- the amounts and types of facilities installed as each circuit segment is upgraded;
- the cost of upgrading each circuit segment;
- the types of facilities replaced;
- any available statistics that track specific improvement in reliability as a direct result of the investments made; and,
- any lessons learned during implementation that are factored into the next year's plan.

CUB proposes that the first of these reports be filed on or about November 15, 2014, and continue annually until project completion. Beginning with the report filed in 2016, CUB asks that WPSC report reliability statistics showing any improvements in reliability for circuits upgraded during the early years of the proposed project.

Project Need

As stated above, WPSC proposes to improve electric distribution system reliability over a five-year period starting in 2014 by replacing sections of existing overhead primary voltage electric distribution facilities with underground facilities, installing distribution automation equipment, or both. WPSC's SAIDI has been higher in four of the last six years than the other Wisconsin utilities that are required to file reliability index information with the Commission. When complete, WPSC estimates that the proposed project will reduce its annual SAIDI by 20 to 25 percent.

CUB does not dispute that some reliability improvements should be pursued, but CUB contends that it is not clear from the record that the proposed project is the best alternative.

The Commission finds that the proposed project, as modified by this Final Decision, is needed and will result in a significant reliability improvement to WPSC's customers at a reasonable cost. The proposed project will reduce outages and make WPSC's service reliability comparable with other Wisconsin utilities. As such, the proposed project will result in a net benefit to WPSC's customers.

Alternatives

WPSC considered three alternatives to the proposed project: continuing the existing electric distribution system and maintenance practices; undertaking enhanced right-of-way

(ROW) clearance practices by increasing the ROW width or decreasing the tree trimming cycle to two or three years; and rebuilding the distribution system using “hardened” configurations with taller and stronger poles and conductors.

CUB contends that WPSC has not adequately studied alternatives to the proposed project, and suggests studying additional alternatives as a condition of any Commission authorization of the project. Specifically, CUB proposes that the Commission approve only the first year of the proposed project at no more than half its scope and cost, thereby allowing WPSC to target the worst problems and allowing reasonable study time for additional alternatives.

The Commission finds that the proposed project is the superior choice when considering reliability improvements, ancillary benefits, and cost. CUB’s additional alternatives are different combinations of the alternatives WPSC has already studied, and those alternatives do not warrant further consideration. In addition, the Commission finds it reasonable for WPSC to continue to evaluate the Hazard Tree Program as a supplemental program, but not as an alternative to the proposed project. The Commission also finds that it is reasonable for WPSC to report, as part of its annual reports regarding the proposed project described below, information regarding WPSC’s evaluation of the Hazard Tree Program and the extent of any reliability improvements attributable to the program.

In addition, the Commission finds that the priorities in the energy priorities law, Wis. Stat. §§ 1.12(4) and 196.025(1), would not be technically feasible and cost-effective alternatives to the proposed project.

Project Duration

To reduce impacts on retail rates, CUB suggests that the Commission authorize the project over a ten-year period rather than the five-year period proposed by WPSC. WPSC countered that the pilot projects completed in 2012 provided valuable experience in planning and implementation of the proposed project, and that there is no reason to delay the construction schedule. WPSC also states that CUB's proposed ten-year implementation schedule would delay reliability improvements and could negatively impact the cost-effectiveness of the proposed project.

The Commission finds that a five-year construction schedule for the proposed project, subject to conditions set forth in this Final Decision, is reasonable. However, as discussed below, based on annual construction plan reports and annual post-construction reports, the Commission may in the future modify the construction schedule as a result of any reopening of this docket.

Annual Construction Plan and Post-Construction Reports

To monitor this project, the Commission is conditioning its approval upon the requirement that WPSC submit annual pre-construction reports and post-construction reports. WPSC shall submit annual construction reports for the 2015-2018 project years. Each pre-construction report shall contain project information similar to that included in its project application for the 2014 construction season, and must be submitted no later than the fourth quarter of each calendar year preceding each of the 2015-2018 project years. The pre-construction reports shall include the following:

- number of segments to underground;
- new underground single-phase single-circuit route miles to be installed;

- new underground single-phase double-circuit route miles to be installed;
- new single-phase underground circuit miles to be installed;
- new underground three-phase route miles to be installed;
- total circuit miles planned to be installed;
- miles of overhead single-phase to be removed;
- miles of overhead three-phase to be removed;
- total overhead miles removed;
- miles affected by distribution automation installations;
- planned number of distribution automation switches;
- number of existing substations that require new distribution automation equipment;
- estimated SAIDI improvement;
- names of utilities with joint facilities;
- number of landowners contacted;
- an environmental summary (including a list of permits required, summary of significant waterway, wetland, cultural resource, or threatened and endangered species issues addressed); and
- a budget for the cost of the construction year.

Following each construction season, WPSC shall submit an annual post-construction report that details the progress made during the previous construction season and the progress made to-date for the proposed project. The Commission also finds that WPSC's and CUB's proposed areas for reporting in annual construction plan reports and annual post-construction reports are reasonable. Thus, this post-construction report must include:

- comparison of total budgeted and actual annual cost;
- comparison of total budgeted and actual project cost to date;
- historic minutes of SAIDI caused by the segments which were addressed that given year;
- historic minutes of SAIDI caused by segments which were addressed to date;
- number of segments addressed that given year;
- total number of segments addressed for the entire project;
- number of miles of existing facilities addressed that given year;
- total number of miles of existing facilities addressed for the entire project;
- number of miles of new facilities installed that given year;
- number of miles of new facilities installed for the entire project;
- number of miles of conductor removed that given year;
- number of miles of conductor removed for the entire project;
- improvements in reliability indices attributable to the proposed project, including those gained from the 2012 pilot projects;

- information regarding customer and landowner reaction to the proposed project;
- the amounts and types of facilities installed as each circuit segment is upgraded;
- the cost of upgrading each circuit segment;
- the types of facilities replaced;
- any available statistics that track specific improvement in reliability as a direct result of the investments made; and,
- any lessons learned during implementation that are factored into next year's plan.

The annual pre-construction reports shall be filed no later than the fourth quarter of each calendar year preceding each of the 2015-2018 project years, and the annual post-construction reports shall be filed by February 15 each calendar year beginning in 2015. Each report shall be provided to the Commission for its information. At the end of two full years of the project and prior to the 2016 construction cycle, WPSC shall work with CUB and Commission staff to evaluate the effectiveness of the proposed project and shall file this evaluation with the Commission for informational purposes. The Commission reserves the right to re-evaluate the proposed project and may, on its own motion, reopen the docket and modify this Final Decision, as it deems appropriate.

The Commission further finds it reasonable for WPSC to survey its customers regarding customer acceptance of the proposed project. This survey shall include inquiries as to the projected rate impacts of the proposed project. WPSC shall work with Commission staff on the scope and design of the survey, and must file both the agreed-upon proposed survey and the survey results with the Commission by March 31, 2014.

Allocation of Project Costs to Customer Rate Classes

WPSC, CUB, and members of the public submitted testimony stating that the Commission should decide the allocation of the cost of the proposed project to customer rate classes in a future rate case. The Commission agrees, and finds that it is appropriate to decide

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the allocation of costs associated with the proposed project to rate classes when it decides WPSC's next rate case.

Distribution System Areas to be Addressed

The Commission notes that several areas in WPSC's service territory experience significantly more outages than expected, as indicated by the reliability indices for electric distribution feeders serving those areas. As such, the Commission finds that WPSC shall, for the first year of the proposed project, prioritize areas to address those served by WPSC's worst-performing circuits.

Additionally, the Commission has received complaints regarding frequent outages from residents of the Florence, Wisconsin, area. The Commission also received correspondence regarding frequent outages from residents near Clear Lake, located west northwest of Rhinelander, Wisconsin. Because of the history of outages in these areas, the Commission finds it appropriate to require WPSC to address these specific areas during the first year of the proposed project, or as soon as practicable if completion in the first year is not feasible.

Environmental Monitors

In testimony, WPSC committed to using third party environmental monitors, with stop work authority, to ensure compliance with environmental standards and requirements. The Commission finds it reasonable to include such a requirement as a condition of its approval.

Environmental Review and Compliance with the Wisconsin Environmental Policy Act (WEPA)

The Commission performed its environmental review of this project as required by Wis. Admin. Code § PSC 4.10(3). The Commission determines that this is a Type III action under Wis.

Admin. Code § PSC 4.10(3). No unusual circumstances suggesting the likelihood of significant environmental effects on the human environment have come to the Commission's attention.

Neither an environmental impact statement under Wis. Stat. § 1.11 nor an environmental assessment is required. The Commission also determines that its environmental review of the project complies with WEPA, pursuant to Wis. Stat. § 1.11 and Wis. Admin. Code ch. PSC 4.

Certificate

WPSC is granted a Certificate authorizing it to construct electric distribution system improvements at various locations in its electric distribution service territory to improve reliability of electric service provided to its customers at an estimated cost of \$222,514,879, including AFUDC, subject to conditions stated in this Final Decision.

Order

1. WPSC is granted authority to construct electric distribution system improvements, subject to the conditions stated in this Final Decision.
2. The estimated cost of the approved project is \$222,514,879, including AFUDC.
3. Should the scope, design, or location of the project change significantly, or if it is discovered or identified that the project cost, including *force majeure* costs, may exceed the estimated cost by more than 10 percent, WPSC shall promptly notify the Commission as soon as it becomes aware of the possible change or cost increase.
4. Beginning with the construction season ending December 31, 2014, WPSC shall file its annual pre-construction reports no later than the fourth quarter of each year preceding each of the 2015-2018 project years, and the annual post-construction reports shall be filed by

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February 15 each calendar year beginning in 2015 consistent with the discussion in this Final Decision.

5. Prior to the 2016 construction cycle, WPSC shall work with CUB and Commission staff to evaluate the effectiveness of the proposed project based on annual construction plan reports and annual post-construction reports and shall file this evaluation with the Commission.

6. WPSC shall survey its customers regarding customer acceptance of the proposed project. This survey shall include inquiries as to the projected rate impacts of the proposed project. WPSC shall work with Commission staff on the scope and design of the survey, and shall file the agreed upon survey and the survey results with the Commission by March 31, 2014.

7. WPSC shall continue to evaluate the Hazard Tree Program as a supplemental program to the proposed project. In addition, WPSC shall report, as part of its annual reports regarding the proposed project, information regarding WPSC's evaluation of the Hazard Tree Program and the extent of any reliability improvements attributable to the program.

8. WPSC shall, for the first year of the proposed project, prioritize areas to address those served by WPSC's worst-performing circuits.

9. Because of the history of outages in the Florence and Clear Lake, Wisconsin, areas, WPSC shall address these specific areas during the first year of the proposed project. If it is not possible for WPSC to address these areas in the first year of the project, WPSC shall work with Commission staff to develop a project schedule that addresses these areas as soon as practicable.

10. WPSC shall use third party environmental monitors, with stop work authority, to ensure compliance with environmental standards and requirements.

11. WPSC shall notify the Commission within 30 days of each of the following events:

- a. the date that construction commences; and
- b. the date that the facilities are placed in service.

12. WPSC shall submit to the Commission the final actual costs, segregated by major accounts, within one year after the in-service date. For those accounts or categories where actual costs deviate significantly from that authorized, WPSC shall itemize and explain the reasons for such deviations in the final cost report.

13. This authorization is valid only if construction commences no later than one year after the date this Final Decision is served.

14. This Final Decision is effective the day after the date of service.

15. Jurisdiction is retained.

Dated at Madison, Wisconsin, this 18th day of July, 2013.

By the Commission:



Sandra J. Paske
Secretary to the Commission

SJP:JAL;jlt: DL: 00779941

See attached Notice of Rights

PUBLIC SERVICE COMMISSION OF WISCONSIN
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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 the date of service of this decision, as provided in Wis. Stat. § 227.49. The date of service is shown on the first page. If there is no date on the first page, the date of service 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 the date of service 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 the date of service 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 serves 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: March 27, 2013

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