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CONFIDENTIAL

VIA ERF

Sandra J. Paske
Secretary to the Commission
Public Service Commission of Wisconsin
610 North Whitney Way
Madison, WI 53707

Re: Docket 6690-CE-197

Dear Ms. Paske:

On September 20, 2013, Wisconsin Public Service Corporation (WPSC) notified the Commission pursuant to Order Point 2 of the April 12, 2013 Final Decision in the above-referenced docket that the cost of the approved ReACT project, excluding AFUDC, may exceed the estimated cost of $275 million by more than 5 percent. In that notification, WPSC identified an estimated range of total project cost. By this letter, WPSC notifies the Commission that WPSC is projecting a total project cost of $345 million. WPSC remains committed to the ReACT project because it remains cost effective relative to the alternatives of installing FGD/SCR controls or retiring and replacing Weston 3.

Development of Revised Project Cost Estimate

WPSC undertook a line-by-line review of the project cost estimate, developed a potential range of variation for each component of the estimate and then performed a Monte Carlo analysis in which random samples of the various component costs are simulated many times over in order to obtain a distribution of probabilistic outcomes. This analysis demonstrated that there is a 90% probability that the cost of the ReACT project will not exceed $345 million.

Using the same cost categories as were presented in WPSC's September notice letter, the $345 million 90% probability estimate can be broken down as follows:

Component	Original Cost	Revised Cost	Difference
HRC ReACT System	$172 million	[redacted]	
URS Eng. & Mgmt.	$16 million		
Balance of Plant	$72 million		
Owners Cost	$15 million		
Total	$275 million	$345 million	$70 million (25%)

Drivers of The Increased Cost

There are two primary drivers of increased cost in addition to those discussed in WPSC's September 20, 2013 notice letter. First, the size of the regenerator has increased. The regenerator removes pollutants from the activated coke. Increasing the size of the regenerator increases the ReACT system's pollutant removal capability and should result in air emissions that are cleaner than Consent Decree limits. This capability will provide WPSC with a "cushion" against those limits in order to ensure compliance.

Second, WPSC has encountered greater complexity than it anticipated in retrofitting the ReACT system to the Weston 3 unit. This has required considerably more engineering, design and fabrication than was originally anticipated. Balance of plant components (i.e., those structural, mechanical and electrical components that support the operation of the ReACT system) have also been impacted by the increased complexity. Indirect costs including engineering, construction management and owner's costs have been impacted by this complexity as well as the extension of the construction schedule into 2016.

Approximately 68% of total project costs are now committed due to continued progress on detailed engineering and the award of additional major equipment and construction contracts.

Updated Economic Analysis

Given the increase in the ReACT project's cost, WPSC updated its economic analysis in order to determine whether the project remained cost effective relative to the alternatives of installing FGD/SCR control technology or retiring and replacing Weston 3. This update analyzed these alternatives in the reference future, "Future 7," updated for natural gas based on the Integrys Gas Group June 2013 long term Henry Hub forecast, coal prices based on the WPSC Fuels Department January 2013 long term forecast and market energy prices based on the most current MIDAS Market Price Model and Ventyx's Fall 2012 national generating unit data set. Since the hearing in this docket, the natural gas price forecast has increased slightly, the coal price forecast has decreased and the market energy price forecast has increased. At the higher capital cost, ReACT's PVRR cost advantage over FDG/SCR has decreased and its cost advantage over retirement has increased.

Alternative	Original PVRR Delta (millions)	Updated PVRR Delta (millions)
Plan 1B: W3 ReACT	0	0
Plan 10: W3 Dry FGD/SCR	124	61
Plan 9: W3 retire/PPA	165	213
Plan 9B: W3 retire/New Unit	180	190

These results, coupled with the Consent Decree compliance deadline and WPSC's continued confidence in the technical feasibility of the technology, form the basis of the company's conclusion that the Weston 3 ReACT project remains cost effective and in the best interest of its customers and shareholders.

Very truly yours,

Bradley D. Jackson