PSC REF#:93402

Public Service Commission of Wisconsin
RECEIVED: 04/25/08, 3:00:02 PM

DATE MAILED

APR 24 2008

BEFORE THE

PUBLIC SERVICE COMMISSION OF WISCONSIN

Fuel Rules Proceeding to Adjust Wisconsin Power and Light Company Electric Rates Originally Set in Docket 6680-UR-115 — 6680-FR-101

INTERIM DECISION AND ORDER

Introduction

This Interim Decision and Order arises out of the application of Wisconsin Power and Light Company (WP&L) for authority to increase rates in 2008 due to an extraordinary increase in fuel costs. The company is granted an interim surcharge for an estimated $15.6 million increase in electric revenues on an annual basis. WP&L's electric revenues resulting from this surcharge are subject to refund with interest at 10.80 percent, the company's current authorized rate of return on common stock equity.

Background

On March 17, 2006, WP&L filed an application for increases in rates for electric and natural gas operations in docket 6680-UR-115 for a 2007 test year. On January 19, 2007, the Commission issued a Final Decision in docket 6680-UR-115 that established rates for electric service beginning January 20, 2007, a forecast of fuel costs, and appropriate fuel cost variance ranges.

On April 16, 2007, WP&L filed an application for an increase in rates for electric operations in docket 6680-UR-115 for a 2008 test year. On November 29, 2007, the Commission issued a Final Decision in docket 6680-UR-115 that established rates for electric

service beginning January 1, 2008, established a forecast of fuel costs and continued the previous fuel cost variance ranges.

On March 25, 2008, WP&L filed an application, under Wis. Admin. Code § PSC 116.07, for an increase in fuel cost of $15.6 million, on an annual basis, for 2008. WP&L's application asserts that its actual fuel cost per kilowatt-hour (kWh) for January and February has exceeded January's and February's authorized fuel cost per kWh by 33.0 percent and 18.4 percent, respectively, exceeding the 8 percent monthly variance range. WP&L estimates its annual fuel cost variance to be approximately 4.6 percent based on January and February actual fuel costs and estimated fuel costs for the remainder of the year. This exceeds the 2 percent annual variance range. The increase in forecasted and actual fuel costs was primarily due to higher purchased power costs and higher delivered cost of coal.

The Commission issued a Notice of Proceeding and Hearing on April 3, 2008. The interim hearing took place on Friday, April 18, 2008, before Administrative Law Judge Edward S. Marion, to consider the need for and the amount of an interim surcharge and the appropriate rate design to recover increased fuel costs.

Findings of Fact

1. WP&L's cumulative average fuel costs for January and February exceed its authorized average fuel costs by more than 8 percent and its annual average fuel costs will exceed its authorized average fuel costs by more than 2 percent.

2. The retail electric rate increase of $0.001435 per kWh on all energy, except energy provided under the renewable energy pricing tariffs and a $0.13 per fixture surcharge for

the Ms-3 lighting rate, for service on or after the effective date of this Interim Decision and Order is reasonable.

3. The continuation of the surcharge authorized in this Interim Decision and Order until the issuance of any subsequent order that sets new retail rates is reasonable.

4. It is reasonable for WP&L to notify each customer of this change in rates with a bill message that explains the authorized surcharge.

5. WP&L's obligation to maintain appropriate records acceptable to the Commission to enable the company to return refunds to its customers, if required and ordered by the Commission, is reasonable.

6. WP&L's collection of the revenues authorized under this surcharge subject to refund and interest at the current authorized return on common stock equity of 10.80 percent as described in the Opinion section below, pending the Commission's review of any excess revenues collected by WP&L while the surcharges are in effect, is reasonable.

7. WP&L's requirement to post the authorized electric rates in all offices and stations of the utility by the effective date of this Interim Decision and Order is reasonable.

Conclusions of Law

1. WP&L is a public utility as defined in Wis. Stat. § 196.01(5)(a) and is operating as an electric and natural gas utility.

2. The Commission has authority under Wis. Stat. §§ 196.02, 196.03, 196.20, 196.37, 196.39, 196.395, and 196.70, and Wis. Admin. Code ch. PSC 116, to increase electric rates, subject to the conditions specified in this Interim Decision and Order.

3. WP&L's average fuel cost for January and February is an extraordinary increase in the cost of fuel, as defined in Wis. Admin. Code § PSC 116.03(9), and is an extraordinary increase under Wis. Admin. Code § PSC 116.07(2).

Opinion

2008 Fuel Costs

In WP&L's Final Decision in docket 6680-UR-115, mailed on January 19, 2007, the Commission determined that it would be reasonable to continue monitoring fuel costs using the following ranges: plus or minus 8 percent monthly, cumulative ranges of plus or minus 5 percent for the second month, and plus or minus 2 percent for the remaining months of the year; and plus or minus 2 percent for the annual range. In its application in this proceeding, WP&L states that it has a fuel cost variance for January of 33.0 percent and February of 18.4 percent and an annual variance of 4.6 percent. WP&L's application in this proceeding shows that its actual average fuel costs for January and February exceeded its authorized fuel cost for that period by more than 8 percent, and that its 2008 annual average fuel costs will exceed its authorized average fuel costs by more than 2 percent. WP&L also states that, based on its own estimates of fuel costs for the remainder of 2008, the company will under-recover fuel costs by approximately $15.6 million if no electric rate increase were approved by the Commission.

At the April 18, 2008, hearing, no party claimed that WP&L did not have extraordinary increase in the cost of fuel and no intervenor or Commission staff presented testimony providing an alternative level for rate relief for this interim proceeding. Wis. Admin. Code § PSC 116.07(2) states, "The interim order will set rates at the requested level, subject to refund

plus carrying costs pending a full review, hearing and final determination by the commission. Carrying costs shall be at the utility's most recently authorized rate of return on common stock equity." The Commission has approved the level requested by utilities on an interim basis except for errors in calculations when the utilities have supported an extraordinary increase in the cost of fuel.

The record for the interim proceeding shows that WP&L has an extraordinary increase in the cost of fuel. It is reasonable to increase Wisconsin retail rates by $15.6 million on an interim basis, subject to refund with interest at 10.80 percent. The company may continue the surcharge subject to a possible refund until Commission staff conducts a full audit, and the Commission holds a hearing and makes a final determination in this proceeding. The company is required to inform all its customers about and explain to them the surcharge and the possibility of a refund.

Rate Design

WP&L proposed that the interim rate increase be recovered by applying a uniform per kWh surcharge to all energy usage, except energy provided under the renewable energy pricing tariffs. WP&L proposed a corresponding $0.13 per fixture surcharge for the Ms-3 lighting rate that is not billed based on energy usage. WP&L rate design will produce the requested $15.6 million increase on Wisconsin retail sales. No party or Commission staff objected to WP&L's proposed rate design for this interim proceeding. Authorizing WP&L to increase its electric rates by implementing a uniform $0.001435 per kWh surcharge to all energy usage, except energy provided under the renewable energy pricing tariffs and a $0.13 per fixture surcharge for the Ms-3 street lighting rate, is reasonable.

Refund of Surcharge

The revenues collected from this surcharge will be subject to refund, pending the Commission's review of any excess revenues collected by WP&L while the surcharge is in effect pursuant to Wis. Admin. Code § PSC 116.07(5). Excess revenues are defined as the net difference between the increase in rates that the utility collects under an interim order and the amount the Commission authorizes in the final order, plus carrying costs as provided in Wis. Admin. Code § PSC 116.07(5). WP&L's carrying cost in this proceeding is its current authorized return on common stock equity of 10.80 percent.

Order

1. WP&L is authorized, under Wis. Admin. Code § PSC 116.07(2), to increase its retail electric rates by $0.001435 per kWh for all energy usage, except energy provided under the renewable energy pricing tariffs and a $0.13 per fixture surcharge for the Ms-3 lighting rate on an interim basis, subject to refund pending the Commission's full review, hearing, and final determination.

2. The effective date of this Interim Decision and Order is one day after the date of mailing.

3. The authorized rate increase shall become effective on the later of the effective date of this Interim Decision and Order or the date the utility files the appropriate tariff with the Commission and places copies in all offices and pay stations of the utility.

4. WP&L shall file a tariff containing the authorized changes and effective period, with the Commission, on or before the effective date.

5. WP&L shall notify each customer of this rate increase with a bill message that is included on the first billing containing the rates authorized in this Interim Decision and Order, and WP&L shall file a copy of this bill message with the Commission before it distributes it to customers.

6. Any excess surcharge revenues that WP&L collects shall be subject to refund with interest at WP&L's current authorized return on common stock equity of 10.80 percent.

7. WP&L shall maintain appropriate records acceptable to the Commission to enable it to return refunds to customers, if so required and ordered by the Commission.

8. The authorized surcharges shall remain in effect until the issuance of a later decision that sets new retail electric rates.

9. The fuel costs in Appendix B shall be used for monthly monitoring of WP&L's fuel costs, pursuant to Wis. Admin. Code ch. PSC 116.

10. Jurisdiction is retained.

Dated at Madison, Wisconsin, April 24, 2008

By the Commission:

Sandra J. Paske

Sandra J. Paske
Secretary to the Commission

SJP:JKW:mem:g:\order\pending\6680-FR-101 Interim Order.doc

See attached Notice of Appeal Rights

Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in Wis. Stat. § 227.53. The petition must be filed within 30 days after the date of mailing of this decision. That 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 Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

Notice is further given that, if the foregoing decision is an order following a proceeding which is a contested case as defined in Wis. Stat. § 227.01(3), a person aggrieved by the order has the further right to file one petition for rehearing as provided in Wis. Stat. § 227.49. The petition must be filed within 20 days of the date of mailing of this decision.

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

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.

Revised 9/28/98

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
Theresa M. Hottenroth
4902 North Biltmore Lane
Madison, WI 53707

Wisconsin Power and Light Company
6680-UR-115
Monthly Fuel Monitoring Costs for the 12 Months Ended December 31, 2008

Line #	Month	Net MWh Produced	Fuel Costs	Fuel Costs per Net kWh Produced	Cummulative Cost per kWh
1	January-08	1,331,222	$ 43,777,309	$ 0.03289	$ 0.03289
2	February-08	1,186,600	$ 35,679,275	$ 0.03007	$ 0.03156
3	March-08	1,258,279	$ 38,009,689	$ 0.03021	$ 0.03111
4	April-08	1,151,150	$ 36,197,254	$ 0.03144	$ 0.03119
5	May-08	1,137,812	$ 27,364,616	$ 0.02405	$ 0.02985
6	June-08	1,235,322	$ 40,585,723	$ 0.03285	$ 0.03036
7	July-08	1,460,565	$ 56,874,356	$ 0.03894	$ 0.03179
8	August-08	1,434,873	$ 50,662,546	$ 0.03531	$ 0.03228
9	September-08	1,226,057	$ 37,410,093	$ 0.03051	$ 0.03209
10	October-08	1,206,845	$ 33,882,233	$ 0.02808	$ 0.03171
11	November-08	1,132,923	$ 28,542,438	$ 0.02519	$ 0.03117
12	December-08	1,264,925	$ 36,945,145	$ 0.02921	$ 0.03101
13	Total	15,026,573	$ 465,930,677	$ 0.03101	$ 0.03101