



Public Service Commission of Wisconsin

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PSC Orders Electricity Rate Adjustment for MG&E Customers *Reduces Residential Gas Rates by 1%*

MADISON – In an oral decision today, the Public Service Commission of Wisconsin (PSC) approved in part Madison Gas and Electric's (MG&E) request to adjust its electricity rates. The PSC approved an electric rate increase of approximately \$12 million, which is less than the utility's request, of approximately \$17 million. The PSC's rate adjustment amounts to a roughly 3.5 percent increase overall for electric rates, and the average residential MG&E customer using 565 Kilowatt hours a month will see a monthly increase of approximately \$2.25 for electric service, as a result of this adjustment.

The PSC also reduced MG&E's natural gas rates by about \$1.5 million, amounting to a monthly decrease of approximately 50 cents for average residential gas customers using 720 therms per year.

“As it has been with all rate cases, mitigating the impact on the ratepayer continues to be a major priority for the commission, and with today's current economic climate this year's rate cases have been no exception,” said Chairperson Eric Callisto. “Today's decision struck a balance between ratepayers working their way through a recession and a utility that needs the resources to keep the lights on and the ability to continue to move forward.”

“MG&E identified a number of cost-saving measures, and I encourage them to identify additional measures to reduce costs without impacting safety or reliability,” said Commissioner Lauren Azar. “MG&E's successful stimulus grant for advanced meters is a great example of proactive action that can mitigate costs to ratepayers. The utility must move quickly to allow customers to realize the benefits that new technology can create.”

“The Commission takes very seriously the special circumstances of all rate cases when considering the economic hardships we have all faced this year,” said Commissioner Mark Meyer. “Today's action was one that shared that hardship fairly.”

When a utility requests a change in rates, the PSC conducts a thorough audit of the utility's forecasted expenses and revenues. The agency looked at the amount MG&E needs to provide a reliable source of energy which includes costs for maintenance, new construction, fuels, environmental protection and employee wages.

The Commission will issue a written order to finalize the rates approved in today's decision. The new rates become effective after the written order is issued.

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Public hearings were held in October in Madison. The testimony provided at the hearings was part of the record the Commission reviewed as it considered all the aspects of the application

The documents associated with MG&E's application can be viewed on the PSC's Electronic Regulatory Filing System at <http://psc.wi.gov/>. Type case number 3270-UR-116 in the boxes provided on the PSC homepage or click on Electronic Regulatory Filing System button.

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Utility Rates: Frequently Asked Questions

What is the Public Service Commission's role in approving utility rates?

Gas and electric utilities in Wisconsin may not increase their rates unless authorized to do so by the PSC. The PSC does not change utility rates until PSC staff has reviewed the utility's request, intervenor and ratepayer advocacy groups have been given the opportunity to participate, and public hearings have been held. The decision to change rates is based on the official record resulting from those hearings and related PSC proceedings.

How often do Wisconsin utilities adjust their rates?

The frequency that utilities adjust their rates depends upon economic factors and the need to recover the costs of providing utility service. Volatile fuel costs often necessitate rate changes as does the need to build power plants and transmission lines that may be necessary to provide safe, reliable utility service.

Does the PSC grant every request for rate increase made by utilities?

No, it does not. In 2008, for example, four utilities asked for rate increases totaling about \$275 million and the PSC, as a result of declining fuel costs and other adjustments, approved a combined *decrease* of \$10 million. In the last 15 years, the PSC has approved about one-half of utility requested amounts, or a reduction of utility rate requests by nearly \$2 billion.

What do my utility bills actually pay for?

Utility bills pay for the cost of such things as utility payroll, power plant construction, maintenance and operation, transmission lines, the fuel needed to run the power plants, renewable energy, and conservation programs.

How do Wisconsin utility rates compare to other states?

Recent publications show Wisconsin's rates to be in the middle third of all states. However, Wisconsin's electric rates have been on the rise in recent years, as Wisconsin utilities have built new electric generation and transmission lines to improve the state's overall electric reliability. This recent period of building follows a near electric power crisis in the late 1990s, when Wisconsin was facing potential brownouts. Recent volatility in the price of natural gas and coal, both unregulated fuel commodities, has also caused upward rate pressure in Wisconsin.

What is a utility's authorized "rate of return"?

A utility's authorized "rate of return" is the percent return on shareholder equity that a utility is authorized to recover in utility rates. It is set by the PSC and is designed to fairly incent sufficient equity investment in Wisconsin utilities while keeping utilities' cost of debt relatively low. Notably, the return is not guaranteed. If the utility does not adequately control costs it will earn a lower return for its shareholders. In recent years, authorized returns in Wisconsin have fallen from over 12% to just above 10%. The level of return allocated to shareholders for Wisconsin utilities is similar to returns approved for utilities in other states.

Do my utility bills pay the company CEO's salary and bonuses?

In large part, no. The total compensation to CEOs as reported publicly is usually many times greater than is actually included in utility rates. The PSC regularly excludes bonuses and incentive payments as well as those services that the executive provides to the non-utility entities associated with a utility's holding company. For some Wisconsin utilities, for example, only 10% of the company CEO's compensation is recovered through utility rates.

When demand for electricity falls and sales decline, shouldn't my rates also go down?

Not necessarily. Utility rates are tied to the cost of providing utility service – the cost of building and maintaining power plants and transmission lines, for example. The cost to build and maintain these assets, unlike the fuel used to power them, are there regardless of how much electricity is used during a given year. These are called fixed costs. Customers can, however, reduce their utility bills by using less. Using less means customers don't pay the costs, like fuel, that vary with usage and they pay a smaller proportion of the fixed costs than do customers that don't conserve. A customer's utility bill can and will decrease by using less, even though the utility rates increase.

Why aren't utility rates more closely tied to the rate of inflation?

The vast majority of costs incurred by a utility are for the cost of power plants, transmission lines, and fuel used for generating power, with fuel costs being extremely volatile. Utilities often go through building cycles when construction of facilities occurs at an accelerated pace to keep up with demand. From the mid-1980s to mid-1990s, there was relatively little construction of utility plants taking place and fuel costs were low and stable, leaving rates at that time largely unchanged. Since that time both those conditions have changed and rates have risen. However, over the last 20-25 years, electricity bills for some of the state's utilities have increased less than the rate of inflation.

If I'm unhappy with my electric utility, can I choose a different provider?

No, you cannot. Wisconsin explored this concept in the 1990s and concluded that the state's transmission system would not be able to provide customers with the choice of providers that would result in lower rates. Instead, customers would have access to a limited number of electricity suppliers, likely resulting in higher utility bills. This conclusion proved wise after California's failed attempt at "customer choice" resulted in skyrocketing utility bills and widespread blackouts. The experience of other states suggests that deregulating the provision of electric service will not provide the customer benefits that some touted a decade ago.

What can the PSC do about my high natural gas bills?

Very little. The PSC only regulates the non-fuel part of your natural gas bill. The natural gas commodity itself, which makes up about 70% or more of customer gas bills, is unregulated and is dependent on natural gas markets. The PSC has long encouraged conservation as an effective means to reduce natural gas bills.