



Public Service Commission of Wisconsin

Cheryl L. Parrino, Chairman
Scott A. Neitzel, Commissioner
Daniel J. Eastman, Commissioner

Jacqueline K. Reynolds, Executive Assistant
Lynda L. Dorr, Secretary to the Commission
Steven M. Schur, Chief Counsel

October 13, 1995

To: The Honorable Tommy G. Thompson, Governor
The Members of the Legislature
The People of Wisconsin

I am pleased to present the 1993-1995 Biennial Report of the Public Service Commission of Wisconsin (Commission). The report has been prepared in the prescribed manner and highlights the decisions and activities of the agency over the last biennium.

The 1993-1995 biennium ushered in an era of dynamic change throughout all utility sectors. For instance, as a result of 1993 Wisconsin Act 496, the telecommunications industry in Wisconsin now has the ability to compete more effectively with less regulatory oversight. It is expected that telecommunications providers will now be able to spread the benefits of state of the art technology throughout Wisconsin and place the state well ahead of the rest of the nation on the information superhighway.

During this period the Commission also initiated major reviews of the state's energy utility sector in an effort to promote competition in the electric and natural gas industries. We have also strived to streamline water utility rate cases and develop partnerships to ensure the quality of Wisconsin's water supply well into the next century. The Commission is on a path of regulatory change and is dedicated to developing a market-based approach to utility regulation. We intend to be a partner to progress, not a roadblock.

The Commission and its staff are energized by the challenges posed by the evolutionary nature of today's utility industry. We plan to preserve the advantages Wisconsin currently enjoys: low rates, quality service, and strong utilities. We welcome the opportunity to create a regulatory environment that is fair, reasonable, and provides adequate consumer protection so that ratepayers benefit and the utility industry succeeds.

I welcome the opportunity to address any comments or questions you may have regarding the information contained in this report.

Sincerely,

A handwritten signature in cursive script that reads "Cheryl L. Parrino".

Cheryl L. Parrino
Chairman

PUBLIC SERVICE COMMISSION

Cheryl L. Parrino
Chairman
Term Expires March 1997

John T. Coughlin
Commissioner
Term Expired March 1995

Scott A. Neitzel
Commissioner
Term Expires March 1999

Jacqueline K. Reynolds
Executive Assistant to the Chairman

PUBLIC SERVICE COMMISSION

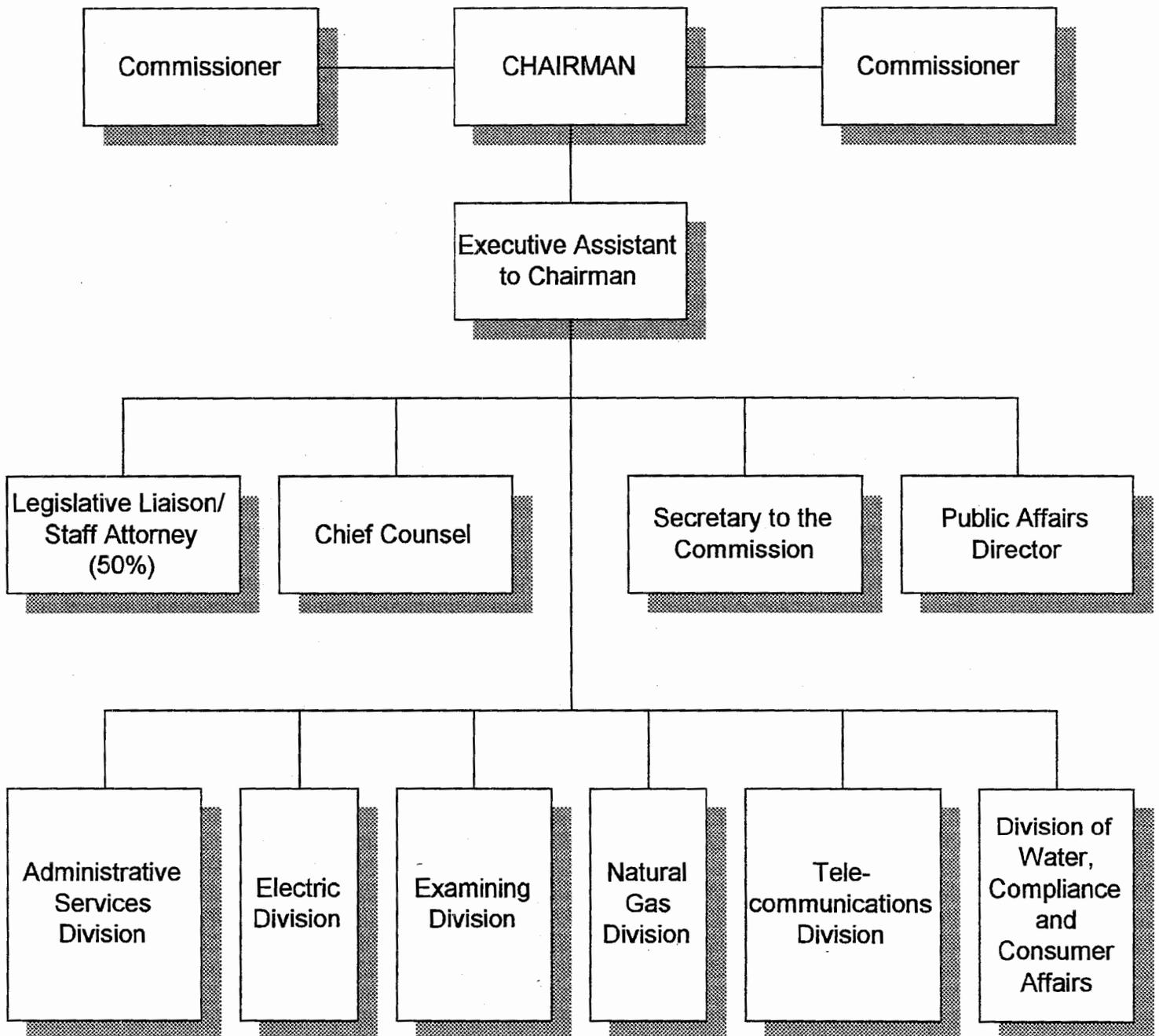


Table of Contents

REGULATORY MISSION	1
PSC Sets Utility Rates, Service	1
Jurisdiction Over 1,249 Utilities	1
ELECTRIC DIVISION	2
Restructuring	2
PSC Initiates Competitive Bidding	2
Generation Construction	3
Transmission Construction	4
PSC Sues the Department of Energy to Remove Spent Nuclear Fuel	5
Federal Intervention	6
Pending Decision for Electric Facilities in Advance Plan 7	6
Renewable Resources	7
Demand-Side Management	8
Electromagnetic Fields	8
Public Involvement in the Regulatory Processes	9
Holding Company Audits and Small Business Activities	10
Electric Rate Action	10
Electric Rate Cases - Class A Investor-Owned Utilities	11
NATURAL GAS DIVISION	12
Restructuring	12
Marketing Pilots	13
Alternatives to Traditional Regulation	14
Docket 05-GI-105, Changes in the Structure of Pipeline Services	15
Gas Supply Audits of Internal Controls	16
Natural Gas Company Mergers	17
State Activities Before the FERC Under the Federal Intervention Project	17
Natural Gas Rate Case Actions	18
DIVISION OF WATER, COMPLIANCE, AND CONSUMER AFFAIRS	19
Electronic Filing of Annual Reports	19
Agency's 800 Number	19
Ameritech and GTE Toll Blocking Experiments	19
Simplified Water Rate Case	19
Milwaukee Metropolitan Sewerage District	20
Reorganization	20
Standards for Water Utility Service - PSC Chapter 185, Wis. Adm. Code	20

Table of Contents (cont.)

TELECOMMUNICATIONS DIVISION	21
Extended Community Calling Approved	21
IntraLATA Toll 1+ Dialing Competition	21
Caller Identification	22
WITS Granted Permanent Authority as ATU	22
PSC Levels Playing Field for COCOTS	23
PSC's Wisconsin Bell Moratorium Decision Upheld	23
Universal Service Fund Council Meets	23
Telecommunications Privacy Council Established by the PSC	23
PSC Moves to Protect the Privacy of Telecommunications Customers	24
Ameritech/GTE North Price Regulation and Investment Commitment Plan	24
PSC Develops Price Regulation to Implement 1993 Wisconsin Act 496	24
Telephone Rate Case Actions	25
 DIVISION OF ADMINISTRATIVE SERVICES	 26
PSC Moves to New Office Quarters	26
Alternative Work Patterns	27
Intervenor Requests Approved by PSC	27
Intervenor Financing Report As Of May 15, 1995	27
 AGENCYWIDE PROCESS IMPROVEMENTS	 28
 COMMISSION DIRECTORY	 31

REGULATORY MISSION

PSC Sets Utility Rates, Service

The Public Service Commission (PSC) is an independent regulatory agency responsible for the regulation of 1,249 Wisconsin public utilities, including those that are municipally owned. The PSC's purpose is to ensure that, in the absence of competition, adequate and reasonably priced service is provided to utility customers.

The PSC sets utility rates and determines levels for adequate and safe service. Other major responsibilities include the approval, rejection, or modification of the utilities' major construction applications (such as power plants and fiber optic networks), and the approval of utility stock issuances and bond sales. The PSC staff, under the direction of the Commissioners, also conduct special programs such as research on the cost of providing various utility services.

The PSC, which receives its authority and responsibilities from the State Legislature, enjoys a national reputation for its innovative and forward-looking approach to the field of utility regulation.

Wisconsin continues to look well into the future so that ratepayers' needs will continue to be met as competition increases in the energy and telecommunications industries.

The PSC's staff consists of auditors, accountants, engineers, rate analysts, attorneys, planners, research analysts, economists, consumer specialists, court reporters, and paraprofessional and clerical support.

Typical types of utilities regulated by the PSC include electric, natural gas, telecommunications, water, and combined water and sewer.

Jurisdiction Over 1,249 Utilities

As of June 1, 1995, the PSC's regulatory powers and duties included the rates and services of:

- 94 Electric Utilities (82 are municipal)
- 13 Gas Distribution Utilities
- 1 Heating Utility
- 67 Sewer Utilities (combined with water)
- 95 Telecommunications Utilities
- 570 Water Utilities (554 are municipal or sanitary districts)
- 409 Alternative Telecommunications Utilities (ATUs)

1,249 Utilities

In Wisconsin most activities of the 28 electric cooperatives are not under the jurisdiction of the PSC. Furthermore, fuel oil, propane, coal, and gasoline are energy sources not under the PSC's jurisdiction.

ELECTRIC DIVISION

Restructuring

Actions taken at the federal level and changes in the energy related industries prompted the PSC to launch an investigation of the structure of Wisconsin's electric industry. In the fall of 1994 the PSC opened generic docket 05-EI-114 to solicit comments from as many stakeholders as possible. This action was preceded by the PSC's participation in roundtable discussions on electric industry restructuring through the Wisconsin Public Utilities Institute.

In February 1995, based on the comments provided by all stakeholders, the PSC created an Advisory Committee chaired by Commissioner Scott A. Neitzel. The Advisory Committee consists of 22 members representing a wide range of interests in the electric industry. Its task is to develop detailed recommendations on industry structures to present to the PSC by the fall of 1995. The PSC will then make decisions on the direction of Wisconsin's electric industry. A legislative package to enable those changes will be prepared by the PSC by the end of 1995.

As the Advisory Committee deliberates, PSC staff is preparing an Environmental Impact Statement (EIS) on electric industry restructuring. This EIS will discuss the environmental, economic, and social impacts of a range of restructuring alternatives. The draft EIS was issued in August 1995, and the final EIS will be issued before the end of 1995. The EIS process allows additional public participation through written comments and public hearings, which will be held around the state.

PSC Initiates Competitive Bidding

The PSC instituted a unique bidding process for utilities to follow in obtaining new electric power generation sources. This action was the result of competition from independent power producers (IPPs) to build new facilities to meet the utilities' electricity needs. The process, designed by the PSC, ensures that all projects are considered on the same basis using the same criteria, giving all competitors a fair opportunity to provide the new power supply.

The major feature of the bidding process is the use of sophisticated computer modelling of the utility's system needs to predict the long-term costs of each bid. In addition, a long list of non-cost criteria are used to weigh the relative strengths of each project. The process allows the competitors to comment on each other's bids and the system modelling information to keep the review of the projects as open as possible. After all parties submit their comments, the PSC determines which proposal is the lowest overall cost to ratepayers.

The competitive bidding process was the result of the PSC's generic investigation of cogeneration project development issues in docket 05-EI-112. The first generation competition was won by LS Power to build a cogeneration facility in Whitewater, Wisconsin, to meet the needs of Wisconsin Electric Power Company (WEPCO). The second competition selected a cogeneration facility proposed by the host utility, Wisconsin Public Service Corporation (WPSC). This project

was withdrawn by WPSC and is to be replaced by the runner-up, a gas-fired combined-cycle project at DePere, Wisconsin, proposed by Polsky Energy Corporation.

Generation Construction

Temporary Spent Nuclear Fuel Storage Approved; Unit 2 Steam Generator Replacement Deferred. The Wisconsin Electric Power Company (WEPCO) proposal to store spent nuclear fuel in dry casks at the Point Beach Nuclear Power Plant was approved by the PSC in February 1995. The 12 casks, which will cost \$6.5 million, have the capacity to store spent fuel from the plant through 1998. The temporary storage is necessary because there is no space left to store spent fuel within the power plant, and because the federal government has not yet built a permanent storage facility. WEPCO must apply to the PSC for permission if it seeks to construct additional casks.

As part of the same proceeding, the PSC considered the \$119 million WEPCO proposal to replace the steam generator of Unit 2 at the Point Beach Nuclear Power Plant. The steam generators have degraded over time, and the plant's power output has started to decline. The PSC deferred this decision to 1996 to collect further information about the rate of tube degradation and new tube repair techniques before deciding whether the steam generator should be repaired or replaced.

LS Power Wins First Competitive Bidding Process and Gets Approval for Whitewater Cogeneration Project. In May 1992, WEPCO proposed to build a cogeneration plant in Kimberly to fulfill its need for capacity and energy and to sell steam to the Repap Wisconsin, Inc., paper mill. Several independent power

producers, however, believed that the utility should have adopted one of their generation proposals instead. Therefore, the PSC initiated a two-stage certification process, with the first stage being a competitive bidding process. In November 1993 the PSC chose the LS Power Project in Whitewater as the winner of the competition. The PSC's decision saves WEPCO ratepayers over \$66 million.

The LS Power proposal then proceeded to the second stage of the certification process to attain a certificate of public convenience and necessity from the PSC. In March 1995 the PSC approved the LS Power proposal to build a new 248.5 MW cogeneration plant in Whitewater. The project will supply electricity to WEPCO and steam to various customers, including the University of Wisconsin - Whitewater. Included in the project are 5.4 miles of natural gas pipeline and 5 miles of 138 kV electric transmission line. The cogeneration plant is expected to be in service in 1997.

Rhineland Energy Project Selected in the Second Competitive Bidding Process, Then Bows Out. The competitive bidding process was also used to determine the provider of new power plant capacity needed by Wisconsin Public Service Corporation (WPSC). Among 13 proposals, WPSC used the competitive bidding process to select its proposal, the Rhineland Energy Center, as the preferred proposal. After public hearings and analysis, the PSC approved the selection in December 1994. Recently, WPSC announced that the \$172 million project is unable to proceed and the designated second place winner, Polsky Energy Corporation, is expected to proceed with Stage 2 of the certification process. Polsky Energy Corporation's proposal is to build a 238 MW natural gas-fired cogeneration facility in DePere,

Wisconsin, that will sell steam to International Paper's Nicolet Mill.

South Fond du Lac Unit 4 Approved. In September 1993 the PSC approved the Wisconsin Public Power Incorporated (WPPI) proposal for the fourth combustion turbine generating unit at the South Fond du Lac site. The first unit at the site, put into service in 1993, is also owned by WPPI, while the second and third units are owned by Wisconsin Power and Light Company (WP&L). The 86 MW power plant is presently under construction and is expected to be in service in 1996.

Transmission Construction

Central Wisconsin Transmission Project Approved. The \$24.5 million joint proposal of Wisconsin Public Service Corporation (WPSC), Wisconsin Electric Power Company (WEPCO) and WP&L to build 60 miles of 138 kV electric transmission line in central Wisconsin was approved by the PSC in August 1994. The line stretches from Stevens Point to New London, via Arnott, Keene, Waupaca, and Weyauwega. About 34 miles of existing transmission line right-of-way will be used for the new line, and about 100 miles of existing transmission line will be permanently removed. The project is needed so that reliable electric service can be provided to the area and because old transmission lines in the area are at the end of their useful lives. Wisconsin Public Power Incorporated (WPPI) also filed an application to compete with the three utilities to build and own the project facilities as a way to reduce its overall power supply costs. The PSC denied WPPI's application. However, the PSC ordered the three utilities to file network transmission tariffs with the Federal Energy Regulatory Commission (FERC). This tariff filing would provide WPPI and

other utilities that depend on the transmission system, but that do not own it, comparable use of the transmission system.

There was extensive public involvement in the process for this proposal. Individuals and local groups raised concerns about the need for the project and the effect it would have on the environment. Conservation and renewable energy are supported and favored by organizations and people in the area, but the electric system problems were of such magnitude that time did not permit such alternative resources to be studied and implemented. PSC approval of the proposal requires the utilities to reduce soil erosion, reduce public exposure to electromagnetic fields, protect endangered species and their habitats, increase awareness of archaeological sites, and conduct a market potential study of alternative energy resources in the area.

WEPCO Auburn-Butternut Transmission Line Reviewed. WEPCO's application to build 14 miles of new 138 kV electric transmission line between Lomira and Kewaskum has been reviewed by the PSC. The line is proposed to connect two radial transmission lines so that reliable electric service can be maintained. RENEW Wisconsin, an organization interested in renewable energy resources, fostered a proposal to build wind turbines and new distribution lines in the area as an alternative to the transmission line. Use of small generators in a local area is a relatively new concept for alleviating or deferring transmission system problems. The PSC issued a final order that approved the utility proposal for the \$4.9 million transmission line.

Utilities Await PSC Action On The Interface Transmission Project. Northern States Power Company (NSP) and WPSC each filed an application in September of

1993 for separate portions of a proposed transmission line. The project is needed because the existing 115 kV line between Marathon City and Chippewa Falls is at the end of its useful life. The project proposes to replace the existing line with 81 miles of new line either on the existing route or a new one and to reconductor the existing 115 kV transmission line between Chippewa Falls and Baldwin. A secondary benefit is that the project would increase the power transfer capability of the transmission interface between eastern and western Wisconsin, so eastern Wisconsin utilities could purchase more low-cost energy from utilities west of Wisconsin. The PSC expects to prepare an Environmental Impact Statement (EIS) by the end of 1995 and issue the PSC decision early in 1996.

Action Pending on Several Significant Transmission Projects. A new 69 kV electric transmission line between Rock Creek, Minnesota; and Grantsburg, Wisconsin; was proposed by Northwestern Wisconsin Electric Company in an application filed in March 1994. The environmental effect of the new \$2.4 million line is a major concern for this project because a portion of the proposed route is through the St. Croix National Scenic Riverway. An alternative to spanning the river with an overhead line is to use the Highway 70 bridge, because the bridge was designed to allow electric transmission cables to be mounted on its underside. Public hearings are scheduled to be held in August 1995, and a PSC decision is expected in October 1995.

In April 1995 WPEC filed an application to build a new 115 kV electric transmission line to serve the proposed Crandon Mine (docket 6690-CE-165). The \$4 million line would be 19 miles long and connect Monico to Crandon. The electrical load from the mine operations would

require transmission system reinforcements so that the mine and surrounding communities would have reliable service. An EIS about all the elements relevant to the mining project, including the new transmission line, will be prepared by the Department of Natural Resources, the Army Corp of Engineers, and the PSC. Public hearings and a PSC decision on the transmission line application are expected to occur in 1996.

WEPCO filed an application in January 1995 to build 42 miles of new 345 kV transmission line from Oconto Falls to Appleton (docket 6630-CE-238). The \$28 million project is needed to allow the utility to transfer power from its Presque Isle Power Plant to its Wisconsin service territory when peak demands occur. In 1996 the PSC expects to prepare an EIS, with public hearings, and a PSC decision on the application thereafter.

PSC Sues the Department of Energy to Remove Spent Nuclear Fuel

The PSC joined a lawsuit to force the Department of Energy (DOE) to meet its obligation to take and store spent nuclear fuel from nuclear power plants by 1998. To date, electric utility ratepayers have paid about \$10 billion into the Nuclear Waste Fund (NWF) to establish a permanent geological repository for spent nuclear fuel. Approximately one third of the NWF's total has been spent on locating and studying a potential repository site, with little or no work product. Wisconsin's ratepayers have paid approximately \$250 million into the NWF.

The DOE is not expected to meet its 1998 obligation to remove spent nuclear fuel. Utilities with nuclear power plants, like Wisconsin Electric Power Company

(WEPCO) and Wisconsin Public Service Corporation, are running out of spent fuel storage space. Additional on-site storage must be provided, or the plants will have to shut down. To avert shutdown WEPCO received limited PSC approval to expand interim storage of spent nuclear fuel at the Point Beach Nuclear Power Plant using dry cask storage technology. The 12 casks approved will only allow Point Beach to operate through 1998. The PSC is concerned that ratepayers are paying twice for storage, paying into the NWF to establish a repository while at the same time paying for additional on-site storage.

Federal Intervention

The PSC continued its active participation before the Federal Energy Regulatory Commission (FERC). FERC was granted authority in the Energy Policy Act of 1992 to order transmission owners to provide transmission service to third parties. Since the enactment of the Energy Policy Act, FERC has used its new authority aggressively to promote competition in wholesale electric markets.

As part of its implementation of this authority, FERC has initiated several formal rulemaking proceedings and policy dockets. The PSC has participated in these proceedings through the submission of formal comments to the FERC, as well as participating informally through presentations at regulatory conferences and forums.

In August 1994 in a transmission line construction case, the PSC ordered Wisconsin Electric Power Company, Wisconsin Power and Light Company, and Wisconsin Public Service Corporation to file transmission tariffs at FERC which would provide network transmission service to captive wholesale customers. In July 1993 Commonwealth Edison

Company, a large electric utility that serves northeastern Illinois, filed a transmission service tariff at FERC. In March 1994 Northern States Power filed revisions to its transmission service tariffs. The PSC has been an active intervenor in these transmission tariff cases.

Pending Decision for Electric Facilities in Advance Plan 7

In January 1994 the utilities filed their plans for meeting the state's electricity needs for the next 20 years. The utilities are required to file Advance Plans about every three years. This is the seventh Advance Plan (AP-7) since the law requiring filing was passed in 1975. Public and technical hearings were held in late 1994 and the first half of 1995, and an order is expected in November 1995.

Wisconsin has continued to experience high levels of growth in commercial and industrial productivity. To meet anticipated growth in electric use over the next 20 years, the utilities' plans include construction of power plants to provide an additional 6,386 MW of capacity, a 50 percent increase over the existing level of capacity. The Energy Division of the State's Department of Administration developed an alternate forecast that would require about 3,886 MW of additional capacity, about one-third less new capacity than proposed by the utilities. The PSC staff suggested that a forecast of future electric need be at a level between these two forecasts.

The utilities' plans include 6,063 MW of fossil fueled power plants. The utilities propose that almost half of the new capacity (2,707 MW) would be in the form of natural gas-fired combustion turbine peaking plants. Another one-quarter of the new capacity (1,750 MW) would be provided by gas-fired combined cycle

intermediate load plants. The additions of these two plant types would greatly increase the use of natural gas for generating Wisconsin's electric energy. Another 1,606 MW of new capacity would be coal-fired baseload plants, but 1,000 MW of that would only be built if the Point Beach Nuclear Power Plant is not relicensed to continue operation.

In addition to fossil-fueled generation, the utilities are proposing 323 MW of capacity that uses renewable resources. Wind power, solar power, hydro electric power, and power derived from waste and biomass are all included. This is more renewable resource use than was included in the utilities' Advance Plan 6 (AP-6), but falls short of the goal of 821 MW of renewable capacity set by the PSC in the AP-6 order. As an optional way of meeting the goal, the PSC will consider a "set aside" policy that would require that a certain amount of new capacity be produced from renewable resources.

During the next 20 years the utilities' plans propose capturing 2,700 MW of demand-side management (DSM) in the form of energy conservation, load management, and fuel switching. However, utility concerns about DSM costs in a more competitive market cast doubt on whether this level of DSM will be achieved. If it is not, then more generating capacity would be needed.

The utilities' plans include 1,020 miles of transmission lines. These plans contain a greater proportion of higher voltage lines than previous plans. There is some question whether all of these lines are needed or whether they are being proposed more for possible transfer of power among utilities, including out-of-state utilities, than for local need. The PSC will review the proposals and decide whether all of the generating units and transmission lines are needed and whether the proposed

construction timelines are appropriate. The PSC will also determine whether or not there might be more potential than the utilities have proposed to replace fossil fuel generating facilities with conservation or renewable resources.

Renewable Resources

As a result of the PSC's continuing encouragement of the expanded use of renewable resources for electric generation, the joint utilities have proposed 323 MW of renewables in their Advance Plan 7 (AP-7) filing. This includes the following:

142 MW	Wind
6 MW	Solar
9 MW	Small Hydro
138 MW	Biomass
28 MW	Waste

Two prototype variable speed wind machines, each with 127-foot diameter turbines, are being installed by the Eastern Wisconsin utilities near their wind-speed monitoring site at DePere, Wisconsin. Three electric utilities have agreed to participate in a collaborative effort to better characterize Wisconsin's wind resource. This collaborative effort also includes PSC staff, Department of Natural Resources staff, and other interested parties. A second cooperative effort by environmental organizations, federal and state agencies, the wind power industry, and utilities has been initiated by the PSC with the goal of establishing guidelines for siting of wind farms.

All electric utilities now offer some form of incentive for installation of new residential solar water heaters and two utilities operate programs to service and repair existing solar water heaters. One utility, Wisconsin Public Service

Corporation, has several photovoltaic (PV) demonstration projects and is an active participant in the nation-wide Utility PhotoVoltaic Group and its program called TEAM-UP. The prime objective of TEAM-UP is to drive down PV unit costs by accelerating the market for PV systems.

Demand-Side Management

In the last biennium the PSC focused efforts on establishing Demand-Side Management (DSM) program and policy direction that preserves the level of DSM achievement, while allowing utilities flexibility on how DSM services are designed and delivered. With the electric industry push for competition and reduced regulatory oversight, Wisconsin utilities have voiced concern about the appropriateness of utility-funded DSM. Utilities argue that DSM program costs increase rates and put utilities at a competitive disadvantage.

The following efforts are being taken to help create a future for DSM under a more competitive electric industry structure:

- * Utility development and demonstration of DSM programs designed to transform markets by instilling lasting change in the market for energy efficient technologies, practices, and services. These programs emphasize trade ally training, new job opportunities, and efficient technology transfer. Examples include a statewide utility motor systems efficiency program for commercial and industrial customers, a residential whole house program, a Super Efficient Refrigerator Program (SERP), manufacturers' initiative, contractor delivered DSM programs, and energy service partnerships for low-income energy service delivery.
- * PSC establishment of quality assurance procedures for utilities to address the

verification of claimed DSM savings from customer paid and information programs.

- * Utility provision of comprehensive training services to building designers and inspectors on new energy efficiency design measures required in Wisconsin's recently revised Department of Industry, Labor and Human Relations (DILHR) commercial building code. This will be accomplished in 1995 through a partnership of DILHR, utilities, public and business interests, and the PSC.

In May 1995 the PSC concluded hearings for Advance Plan 7 (AP-7). In their AP-7 filings, the utilities proposed 20-year DSM savings of 2,700 MW and 5,800 GWh including existing, committed, and new programs. However, the utilities cautioned the PSC that these savings targets may need to be adjusted as the industry becomes more competitive. In these hearings PSC staff testified that DSM offers customers and utilities significant economic and environmental benefits, and utility efforts to achieve reasonable levels of DSM savings should not be abandoned.

Electromagnetic Fields

The PSC has been monitoring electromagnetic field (EMF) research and regulatory action since the early 1980s. In October 1991 the PSC held a series of technical and public hearings on EMF as part of its Advance Plan 6 (AP-6) proceedings. These hearings resulted in the AP-6 EMF order which was issued in May 1992. In November 1994, as part of the AP-7 proceedings, the PSC held a hearing to consider the health related research findings that have been published since 1992 and to hear public comments regarding EMF.

While there is still no scientific consensus as to whether exposure to power

frequency EMF affects human health, the PSC continues to reassess its own policy toward EMF and to monitor scientific research as well as national and international regulatory activity. Consideration of EMF continues to be an important part of the PSC's deliberations when siting power lines and power plants around the state.

The PSC requires Wisconsin utilities to:

- * Contribute to the national EMF research effort.
- * Provide information to the public on EMF, perform EMF measurements for customers upon request, and develop (with PSC staff guidance) a uniform EMF measurement protocol.
- * Evaluate and include information on how magnetic fields differ for alternative power line configurations in all construction applications.
- * Create a database on magnetic fields around representative distribution and transmission facilities.
- * Consider, when proposing transmission line projects, the number of persons exposed to EMF along line routes, as well as the intensity and duration of exposure. The utility must also submit a list of homes, work places, hospitals, nursing homes, day care centers, and schools near proposed and alternate transmission line routes.
- * Use low-EMF design structures where practicable when proposing to construct new electric transmission lines or rebuild old ones.
- * Investigate and report on methods of reducing EMF on distribution systems.
- * Consider and incorporate the possibility of adverse health effects from EMF into the integrated resource planning process. Energy conservation programs that reduce current flow throughout the electrical system, and thereby help to

minimize exposure to EMF, must be credited with that benefit.

Public Involvement in the Regulatory Processes

The PSC continues to work toward increased public access and increased opportunities for public feedback. A PSC staff team was designated to find ways to encourage meaningful and useful public involvement in the industry restructuring docket underway since mid-1994.

PSC staff continued to produce materials to improve public information efforts. Display materials for public meetings and hearings were developed. Several flyers and brochures to clarify PSC and utility processes were produced. Changes were made in the way public information meetings were handled to allow the public more useful interaction with PSC staff and utility staff.

Building on changes that began in Advance Plan 6 (AP-6), reader-friendly educational pamphlets, and informational materials were created and updated for Advance Plan 7 (AP-7). These materials were widely requested and distributed. While attendance at the AP-7 public information meetings and hearings was relatively light, the educational and informational materials were used by those who participated. Many of the materials produced for the Advance Plan proceeding relate to general topics, such as EMF and power plant siting. These materials have proven to be valuable sources of public information outside of the Advance Plan process, particularly for public involvement in proposed construction projects.

In a major transmission construction case, the Central Wisconsin Transmission Project, a more reader-friendly

Environmental Impact Statement was developed and numerous well-organized public information meetings were held. An interested local group, Promoting Options for Wise Energy Regulation (POWER), received intervenor compensation in order to provide unique environmental and aesthetic information for the project. POWER also assisted the PSC in distribution of project information. Public testimony in the hearing record was greatly enhanced by these public involvement efforts.

Holding Company Audits and Small Business Activities

The PSC has been conducting holding company audits on a biennial basis, but is now switching to a three-year rotation. The Wisconsin Energy Corporation audit was completed in 1993. The WICOR, Inc. (WICOR), and Wisconsin Power and Light Company (WP&L) Holdings audits were begun in late 1993. The WICOR audit was completed in 1994, and the audit of WP&L Holdings is in its final stages with a report to be sent to the Legislature in late 1995. No material problems or errors were discovered in any of these audits. However, an error in the way WP&L charged for furnace conversions was found. Although the error was not material in dollars, it was addressed in the 1994 WP&L rate case in conjunction with other small business concerns.

In June 1994 the PSC granted the application of Wisconsin Public Service Corporation and WPS Resources Corporation to form a holding company under s. 196.795, Stats. A hearing was held and the application was granted subject to conditions and reporting requirements similar to those imposed on other holding company systems.

The PSC believes that representing the interests of small business in Wisconsin is critical if small businesses are to be able to compete effectively in a more competitive energy utility environment. As a result, the PSC restructured its small business liaison activities and designated a representative for both of the energy industry divisions in September 1994.

The small business liaison program grew out of the Holding Company Law, which requires the PSC to provide assistance, monitoring, and advocacy in protecting small business interests in actions before the PSC. The liaisons will work to develop better relations with business and trade groups and may initiate educational and other outreach activities.

The PSC held public hearings in December 1994 and February 1995 to address a complaint against Wisconsin Electric Power Company (WEPCO) alleging that the accounting and trade ally practices related to WEPCO's End-Use Pricing (EUP) Program were harming small independent contractors. Three independent contractor associations, representing over 355 small businesses, filed the complaint and requested the PSC to direct WEPCO to terminate the EUP Program. WEPCO has voluntarily agreed to terminate the program and the case has been closed.

Electric Rate Action

Rate cases for investor-owned utilities decreased in number due to the PSC's decision in April 1993 to require investor-owned utilities to file rate information biennially rather than annually. This move to streamline and improve the ratemaking process was also extended to municipal utilities by simplifying the filing requirements of municipal utilities that seek to change electric rates.

Electric Rate Cases - Class A Investor-Owned Utilities

<u>Docket</u>	<u>Utility</u>	<u>Dollars Requested</u>	<u>Dollars Granted</u>	<u>Final Order</u>	<u>Percent Change</u>
3270-UR-108	Madison Gas and Electric Company	(5,814,000)	(4,187,000)	12/9/94	(2.8)
6680-UR-109	Wisconsin Power and Light Company	0	(12,340,000)	12/9/94	(2.8)
6690-UR-108	Wisconsin Public Service Corporation (Fuel Cost Rate Adjustment)	(3,683,472)	(3,683,472)	5/24/94	
4220-UR-107	Northern States Power Company	No Change	No Change	12/27/93	0.0
6690-UR-107	Wisconsin Public Service Corporation	13,777,000	8,740,000	12/29/93	2.1
6680-UR-108	Wisconsin Power and Light Company	20,468,000	15,551,000	10/11/93	3.8

* * *

NATURAL GAS DIVISION

Restructuring

Docket 05-GI-108. The PSC is on a path of regulatory change in the natural gas industry that holds the possibility of wide-ranging impacts for utility customers - industrial, commercial, and residential. The PSC's objective is to foster a regulatory approach which incorporates as much competition as is consistent with the public interest. The goal is to remove barriers to the development of competition and to spur the development of customer choices for natural gas services.

The selection of this market-based approach to regulation grew out of efforts that began with a March 1992 roundtable on natural gas issues. An industry/staff work group and a PSC staff study group issued reports (July 1993 and April 1994, respectively) evaluating possible regulatory approaches in light of federal deregulation, industry trends, and the PSC's regulatory goals. On July 28, 1994, the PSC directed PSC staff to pursue a model which deregulates gas costs by customer class as classes become sufficiently competitive. Gas procurement would only be available on a nonregulated basis. The PSC also found that the distribution of natural gas at the local level would remain a regulated service for all customers due to its monopolistic nature.

The PSC is responding to changes at both the national and local levels. Federal policy has been to increase competition in the industry and remove impediments to increasing natural gas supply and use. For example, in the mid-1980s the Federal Energy Regulatory Commission (FERC) ended the interstate pipelines' monopoly on the transportation and sale of natural gas. Customers could now buy natural gas

at the wellhead and transport it to their market areas. More recently (November 1993), the FERC required the natural gas pipelines to structurally separate their merchant (sales) and transportation functions. They could no longer provide what is known as bundled service. This shifted the responsibility for meeting daily swings in gas usage from the pipeline to the local utility (see docket 05-GI-105 below).

These changes at the federal level spurred changes at the local level. The Local Distribution Company (LDC) is now responsible for obtaining these services for themselves, either individually or from a marketer or supplier who has rebundled the services. This has created opportunities for the LDCs to get involved in activities that were previously not possible. These include, for example, obtaining gas supply for other parties both within the current service territory, or in some instances, for other customers throughout the state, putting them in direct competition with other LDCs (see Marketing Pilots below).

All of these changes have required the PSC to move cautiously in its efforts to refocus the agency's regulatory efforts. As mentioned above, the PSC aims to incorporate as much competition as is consistent with the public interest. Numerous issues have been defined that need to be addressed to keep these two forces in balance.

- Issues that need to be addressed include:
- * Defining "effective competition" sufficient to warrant deregulation under the new model.
 - * Defining what degree of financial or structural separation within the utility structure the PSC should require for utility activities associated with serving

regulated and nonregulated market segments.

- * Defining what costs will be associated with moving to this new regulatory environment, and how and from whom should these costs be recovered.
- * Unbundling or the defining of costs associated with the provision and distribution of utility service.
- * Pricing, or the rebundling of costs, for developing rates.
- * Deciding how we will regulate those activities that are not market driven and continue to be subject to regulation (see Alternative Regulation below).
- * Meeting the special needs associated with the residential or core customer, particularly the low-income customer; e.g., weatherization.
- * Bringing customers into this new regulatory framework: How can we make them aware of the changes, provide them with the information they need, and educate them so they can make informed choices.
- * Determining how demand-side services (conservation) will be funded and provided.

A formal generic proceeding, docket 05-GI-108, has been set up to fully investigate the issues associated with implementing this model. PSC staff work groups are investigating the various policy areas and issues. Many of these groups are actively soliciting input from outside the agency as part of their research. The first formal phase of the investigation began with seven days of hearings beginning on May 30, 1995.

This first phase focuses on three issues:

- * The degree of financial or structural separation for gas purchasing activities associated with serving regulated and nonregulated segments of the market.

- * How the PSC should functionalize the elements of the cost of utility natural gas service.
- * Defining the long-run incremental costs for providing natural gas service.

The PSC staff anticipates that the next two planned phases of this docket will be completed by late 1996, with at least two more opportunities for public input at hearings anticipated.

Marketing Pilots

The changing regulatory climate at both the federal and state levels has led to the need to explore new business structures and activities. During the 1993-1995 biennium the PSC authorized several utility marketing pilots created in response to changes instituted by Federal Energy Regulatory Commission (FERC) Order 636. One result of Order 636 was to allocate more of the pipelines' fixed costs to those customers with the greatest need for access (capacity) to firm, stable supplies; e.g., cold weather states such as Wisconsin. Wisconsin's Local Distribution Companies (LDCs) must contract and arrange for natural gas supplies and pipeline transportation capacity based on their firm peak-day requirements. As a result, most days of the year the contracted firm gas supplies and pipeline capacity exceed the amount needed or used by the LDCs' customers. LDCs can shed this unused capacity by marketing it through an electronic bulletin board (EBB). Although this helps minimize ratepayer costs, all such consummated sales are deeply discounted due to prevailing market conditions.

During the 1993-1995 biennium five marketing pilots were established by utilities: Madison Gas and Electric and

Great Lakes Energy Corporation (GLENCO); Wisconsin Power and Light Company (WP&L) and Heartland Energy Services, Inc.; Wisconsin Gas Company (WGC) and Gas Management Service (GMS); Wisconsin Public Service Corporation (WPSC) and WPS Energy Services, Inc. (WPS Energy); and, Northern States Power Company (NSP) and Nontraditional Gas Services Pilot Project. The marketing pilots vary substantially in intent, scope, and structure. For example, NSP's nontraditional gas services are provided by the utility's existing staff, are not tariffed, and are incidental in nature and volume. WGC provides its GMS on a tariffed basis. Of the other three, one is a wholly-owned subsidiary of the utility (GLENCO), and the other two are wholly-owned subsidiaries of the parent holding company (WP&L and WPSC). These three all focus on marketing underutilized supply and capacity.

The gas marketing pilots are experiments. The environment in which they operate continues to change becoming increasingly competitive, at least for some customer classes. As mentioned above, the PSC is in the midst of reviewing needed changes in state regulation of the natural gas industry (generic proceeding 05-GI-108). The PSC's decisions resulting from that review should provide guidance on the structural relationships and operational mechanics appropriate to marketing the LDCs underutilized supply and/or capacity.

Alternatives to Traditional Regulation

Along with the new marketing pilots described above, there were other responses to the continuing changes in the regulatory climate. Wisconsin Gas

Company (WGC) and WP&L both proposed that part of the PSC's on-going oversight be "performance based," reflective of the utilities' ability to meet or exceed pre-established performance standards.

WGC PARM. In docket 6650-GR-112, WGC proposed a three-year productivity-based alternative ratemaking mechanism (PARM) pilot. The proposed pilot focused on the margin (the distribution-related or nongas) portion of WGC's rates and included a price cap mechanism under which the margin component of rates would be allowed to automatically increase at a rate less than the rate of inflation. The proposed pilot also included a weather adjustment mechanism by which the margin portion of customers' bills would automatically be increased or decreased to reflect weather variances from normal.

The PSC found that the proposed price cap mechanism, which would increase rates without a hearing, would violate the hearing requirement of s. 196.20 (2m), Stats., and that the weather adjustment mechanism was inconsistent with a move to a more competitive market. The PSC offered WGC the option of a three-year margin rate cap, with an initial annual margin revenue decrease of \$10,127,000 and limited pricing flexibility. To assess WGC's performance under the margin rate cap, the PSC identified various measures of success to be used throughout the period in areas such as safety, customer satisfaction, rates, and demand-side management. WGC accepted the PSC's proposal and it is now expected that the company will operate under the margin rate cap through October 1997.

WP&L Incentive PGA. In docket 6680-UR-109, WP&L proposed that its existing Purchased Gas Adjustment Clause (PGA), which provided for a dollar-for-dollar recovery of its costs of gas, be

modified to include an incentive mechanism. The PSC accepted with modifications the proposed natural gas procurement incentive. Under the incentive PGA, the amount collected in rates for the cost of gas will be based on commodity spot prices and specific cost adders. Through the incentive sharing mechanism, the difference between the amount collected in rates for gas costs and the actual cost of gas will be shared between ratepayers and shareholders; therefore, for part of the gas supply costs, the utility is no longer assured a dollar-for-dollar recovery. Depending on the utility's ability to outperform the market, shareholders would share in losses or gains up to a maximum of \$1,151,000.

Docket 05-GI-105, Changes in the Structure of Pipeline Services

As noted previously, Federal Energy Regulatory Commission (FERC) Order 636 radically restructured the services which domestic interstate natural gas pipelines are allowed to provide to their customers. It eliminated or changed many pipeline services which Wisconsin's natural gas utilities relied on to provide sales services to their customers.

For example, Order 636 mandated the elimination of bundled pipeline sales service. This meant that Wisconsin Local Distribution Companies (LDCs) could no longer purchase natural gas from "merchant" interstate pipelines, but were required to purchase directly from gas producers or suppliers and to arrange for transportation to their respective utilities. To accomplish this, LDCs needed to use new pipeline services such as unbundled market area storage, enhanced transportation services, and no-notice

service. These new services require the LDCs to manage the gas needs of their customers in a more structured and demanding environment than existed previously. This also means that the LDCs will no longer be able to rely on the pipelines to provide sufficient natural gas to meet unanticipated needs, such as those resulting from abruptly changing weather.

The interstate pipelines were required to file a restructuring case detailing the changes needed to accomplish the mandated service unbundling. The revised tariffs of ANR, Wisconsin's principal pipeline supplier, were not approved prior to the implementation date of Order 636. Even so, ANR implemented modified tariffs and new service contracts on November 1, 1993, because the authorization for existing services terminated on that date.

Docket 05-GI-105 was opened by the PSC in September 1993 in response to the changes in pipeline services and rates which were mandated to comply with FERC Order 636. Wisconsin LDCs' tariffs needed to be modified since many LDC tariff rates and rules relied on underlying pipeline tariff provisions which were to be changed or eliminated by November 1, 1993. For example, tariff provisions dealing with balancing, including cash-out mechanisms, constraint day procedures and penalties, balancing pools, and the availability or replacement of unbundled backup services needed to be modified to reflect the changes in pipeline services upon which the LDC services are based.

In a more orderly world, the restructured pipelines' tariffs would have been finalized in advance of their implementation date so that LDCs could have made necessary changes to their tariffs to give end-use customers good choices between pipeline load balancing options and reasonably priced LDC

options. However, FERC's delays in approving the ANR restructured tariffs made an orderly implementation of the pipeline tariffs by the LDCs and the PSC impossible in the interim. The delay in approving the ANR tariff, the statutory requirements for notice and hearing, and the failure to implement necessary changes in LDC rates and services coincident with the effective date of new pipeline rates and services would have subjected Wisconsin LDCs to penalties resulting from transportation customer imbalances. It would also have required them to provide services for which no underlying pipeline service was available. As a result, the PSC found that the foregoing constituted an emergency under ss. 196.20 (1) and 196.395, Stats., and placed into effect revised tariffs and rates prior to hearing. To protect customers from the imposition of unreasonable rates, the revised rates were to be collected subject to refund or surcharge.

The following major issues were addressed by the PSC in the course of this proceeding: the responsibility of LDCs to provide balancing to their transportation customers; whether such balancing services should be cost-based or market-based; the structure of daily balancing service; pooling of daily imbalances; constraint day rules and charges; annual and/or daily gas backup services; shipper requirements with respect to their customers; shippers; access to utility information concerning their customers; nomination provisions; required testing of interruptible sales customers; and other miscellaneous tariff issues related to balancing services.

The complexity of dealing with these issues was, and continues to be, enormous. The proceeding has required numerous days of hearings and has resulted in three

interim orders. A final order is expected by the fall of 1995.

The number of players, both suppliers and end-use customers, in the natural gas industry has grown substantially. As a result of FERC Order 636, many of these responsibilities now belong to the LDC. Due to the uniqueness of the individual utility distribution systems and due to the rapidly changing nature of the natural gas industry, the PSC has been working to establish a policy framework which provides the discipline necessary to maintain the integrity of the distribution system; yet, at the same time this does not create undue or unreasonable burdens which would thwart the development of competition in the industry.

Gas Supply Audits of Internal Controls

The Natural Gas Division began conducting gas supply internal control audits as a result of the PSC's decision in 05-SG-100, Phase I (since superseded by 05-GI-108). The PSC in its Phase I decision noted the need for PSC staff review of the operational controls in place at the Local Distribution Company (LDC). Such review would ensure that LDCs had proper procedures, documentation, and other internal checks in place related to gas supply and capacity procurement.

Audits that have been completed during the biennium are: Madison Gas and Electric Company; Wisconsin Gas Company; Wisconsin Public Service Corporation; Superior Water, Light and Power Company; and Wisconsin Natural Gas Company. An audit pertaining to Wisconsin Power and Light Company is currently in progress. When each audit is completed an audit report is sent to the subject utility. PSC staff recommendations are followed up by the utility and checked

by PSC staff at a later date. These audit reports are available for public review.

Natural Gas Company Mergers

Merger of Wisconsin Natural Gas Company and Wisconsin Southern Gas Company. During the 1993-1995 biennium, Wisconsin saw two mergers of natural gas companies: Wisconsin Natural Gas Company (WNG) with Wisconsin Southern Gas Company (WSG), and Elroy Gas Company with Madison Gas and Electric Company (MG&E).

Elroy Gas Company (EG), a utility of approximately 550 residential, commercial, and industrial customers was merged into MG&E (with MG&E as the surviving corporation) on August 24, 1993. The transaction was accounted for as a pooling of interest and all of the outstanding shares of EG were converted into newly issued common shares of MG&E.

WSG, serving approximately 44,000 customers in southeastern Wisconsin and the Prairie du Chien area, was merged into WNG (with WNG as the surviving corporation) on January 1, 1994. The combined utilities will serve approximately 325,000 customers. WNG is a wholly-owned subsidiary of Wisconsin Energy Corporation (WEC). The transaction was accounted for as a pooling of interest, and provided for a tax-free reorganization in which all the outstanding shares of WSG common stock were converted into newly issued shares of WEC common stock.

The obligation to provide public utility service and operations in the territories formerly served by WSG was assumed by WNG, with no interruption in service to any customer as a result of the transaction. WNG has continued application of WSG rates and tariffs in the territories formerly served by WSG.

State Activities Before the FERC Under the Federal Intervention Project

Since 1978, the PSC has represented the State of Wisconsin before the Federal Energy Regulatory Commission (FERC), because the FERC's action can significantly affect the economic and social well-being of Wisconsin's citizens and industries.

The 1993-1995 biennium was spent adjusting to life in the post-Order 636 world. There have been numerous FERC cases for the two pipelines which deliver the majority of the gas to Wisconsin, ANR and Northern Natural. However, the central issue in all of these has been how to allocate and pay for the costs of pipeline assets which have been rendered useless or unnecessary by Order 636. In addition, both of these pipelines have filed major rate cases which reflect the cost of doing business as "unbundled" service providers and which reflect the use of the FERC-mandated straight fixed variable rate design which tends to increase rates to cold weather-sensitive customers. The PSC's advocacy in all of these cases is to ensure fair and reasonable treatment for Wisconsin consumers and businesses.

Another focus of FERC activity is the Dakota Gasification Plant series of cases. The Dakota Plant is a Carter-era project which manufactures natural gas. As part of the original project, FERC allowed a guaranteed price for the gas produced, and this price is paid by Wisconsin consumers, among others. Changes in market conditions since the plant's inception have caused this gas to become prohibitively high-priced. There have been, and continue to be, prolonged litigation and settlement proceedings to resolve this situation.

Public Service Commission

Natural Gas Rate Case Actions

<u>Docket</u>	<u>Utility</u>	<u>Dollars Requested</u>	<u>Dollars Granted</u>	<u>Final Order</u>	<u>Percent Change</u>
1140-GR-102	City Gas of Antigo	\$ 228,704	\$ 106,900	12/22/94	2.76
6670-GR-108	Wisconsin Natural Gas	17,024,000	9,171,574	08/31/93	3.3
6680-UR-108	Wisconsin Power and Light Company	3,613,000	1,845,000	09/30/93	1.42
6680-UR-109	Wisconsin Power and Light Company	3,629,000	691,000	12/08/94	.5
6690-UR-108	Wisconsin Public Service Corporation	2,000,000	1,027,000	12/21/93	.6
6690-UR-109	Wisconsin Public Service Corporation	0	0	12/19/94	0
3270-UR-107	Madison Gas and Electric Company	0	0	12/08/94	0
4270-UR-107	Northern States Power Company	1,370,000	1,411,000	12/23/93	2
6650-GR-111	Wisconsin Gas Company	24,400,000	12,331,000	11/11/93	2.4
6650-GR-112	Wisconsin Gas Company	PARM*	Modified PARM*	11/03/94	N/A
6640-GR-105	Wisconsin Fuel and Light Company	684,700	57,3416	10/28/93	0.12

*Indicates a Productivity-Based Alternative Ratemaking Mechanism

DIVISION OF WATER, COMPLIANCE, AND CONSUMER AFFAIRS

Electronic Filing of Annual Reports

In 1994 electronic filing of the 1993 Annual Report was an option for all telephone utilities. Sixty-nine of the 95 telephone utilities (68.4 percent) filed via a computer disk that year. In 1995 the number of telephone companies filing electronically increased to 84, or 88.4 percent. Also in 1993 an agreement was reached between PSC staff, the Wisconsin State Telephone Association, and selected members of the telephone industry, that confidential treatment would be limited to a specified list of data items on the Annual Report.

Agency's 800 Number

In September 1993 the PSC began operating an 800 prefix telephone number for complaints from the general public. Although it is fairly certain that the 800 number has contributed to increased complaints at the agency (complaints in 1994 were 32 percent greater than in 1993), it is difficult to say how much of this increase can be attributed to the 800 number, and how much was generated by changes in the industry; that is, new service offerings, or reductions in service provided.

Ameritech and GTE Toll Blocking Experiments

In January 1994, after working with the PSC staff and receiving PSC approval, Ameritech began its experiment on improved

procedures to identify new applicants for service. Under the experiment the utility provided customers with local service and possibly denied them toll service while verifying the applicant's identity and payment history. In March 1995 because the experiment resulted in service being provided to customers who would otherwise not have received service and in reduced uncollectibles for Ameritech, the PSC gave permission for the procedures used during the experiment to continue on a permanent basis. Also in March 1995 the PSC gave approval to GTE to conduct an experimental policy to place limits on the amount of toll service a customer is allowed, and disconnect toll service when the limits are exceeded. GTE plans on implementing this experiment in the summer of 1995.

Simplified Water Rate Case

The PSC is seeking to provide municipally-owned water and combined water and sewer utilities a simple and convenient means to increase water rates and sewer rates. Under the PSC proposal simplicity is balanced with regulatory oversight. A utility meeting a simple financial needs test is eligible for an inflationary level increase. The PSC believes the flexibility afforded by this new process will be widely supported by both local government and public utility officials. Customers and consumer advocacy groups will also welcome a process that has the potential to significantly alleviate past problems with rate shock. The PSC's proposal is currently pending before the Legislature.

Milwaukee Metropolitan Sewerage District

The long running and costly battle between the Milwaukee Metropolitan Sewerage District (MMSD) and the communities surrounding Milwaukee that use the MMSD system continues unabated and has found its way to the PSC's doorstep once again. The "sewer wars" as they have come to be known, stem from a disagreement between the parties over how the costs are to be recovered for the construction of MMSD's \$2.2 billion Waste Water Pollution Abatement Project. At issue has been the recovery of these capital costs on the basis of property value as opposed to the traditional cost of service utility ratemaking principle. A third major complaint has been filed with the PSC relative to this matter. The investigation in this current complaint is just beginning. The PSC has issued two prior decisions which were upheld by the courts affirming that the property value method of capital cost allocation was reasonable and authorized by statute.

Reorganization

In January 1994 the PSC implemented a mini-reorganization which "fine-tuned" the reorganization of 1990 along utility industry lines. The most significant changes occurred in the Division of Water, Compliance, and

Consumer Affairs, formerly the Division of Utility Operations Review. Regulation of the state's water and combined water and sewer utilities was transferred to this division thus allowing the Natural Gas Division to focus on the changing gas industry and creating a separate identity for the water industry. The Stray Voltage Program was transferred to the Electric Division from the Division of Utility Operations Review, bringing it together with other power quality programs. The cost engineering program which traditionally was centralized serving all types of utilities was decentralized into the respective industry divisions. Its focus was tailored to reflect the changing regulatory environment in the various industries.

Standards for Water Utility Service - PSC Chapter 185, Wis. Adm. Code

In the 1993-1995 biennium the PSC began a general revision of the rules governing the provision of water utility service. The primary objectives of this initiative are to update the code and bring it into general uniformity with the other utility industry codes, particularly as it relates to customer service standards. Draft rules have been completed and an industry roundtable discussion was held to gain input prior to initiating formal rulemaking in the summer of 1995.

TELECOMMUNICATIONS DIVISION

Extended Community Calling Approved

In August 1993 the PSC gave preliminary approval to Extended Community Calling (ECC). The ECC plan enables a customer in any Wisconsin exchange to place local calls to all adjacent exchanges plus those within 15 miles. Previously such calls were considered long distance calls. Under the ECC arrangement approved by the PSC, calls will cost approximately 5 cents per minute but may vary by company.

The PSC developed the ECC concept because many customers have indicated during public hearings they find it frustrating that calls they place to their local schools, government offices, medical facilities, and other areas of local interest are billed at long distance rates. Many customers consider these calls "local" in nature and believe they should be billed accordingly. The PSC believes that ECC will address these and other inequities in the current local calling system.

Since the PSC's initial decision in this docket, the industry and PSC staff have worked together to implement ECC. When this report was prepared, approximately 90 percent of customers statewide have ECC. The remaining customers are expected to receive ECC between now and the end of 1996 when their central office switch is upgraded.

IntraLATA Toll 1+ Dialing Competition

In December 1993 the PSC decided to allow full competition in the intraLATA telecommunications market (the only portion of the long distance market in Wisconsin

which is not already competitive). In its decision, the PSC ordered the local telephone companies to install software to allow customers to choose a long distance company for long distance calls **within** the LATA, in the same way that customers can choose a carrier for their long distance calls **outside** the LATA. (Local access transport areas or LATAs are geographic areas created by the AT&T divestiture agreement, and correspond roughly to the area codes.)

This means customers who want to use their long distance company to make a toll call inside their LATA can do so in the same manner as they do with Ameritech or GTE North; by dialing 1, the area code and the seven-digit telephone number. Without this Commission requirement, customers who want to use their long distance company to make a call must first dial a five-digit prefix and then dial 1, the area code and telephone number.

As with ECC, implementation will take several years to accomplish statewide as the necessary software is developed and deployed in each local telephone switch. Fortunately, the availability of software capable of 1+ dialing has increased, and costs have declined since the PSC issued its decision. This has hastened to some extent the 1+ dialing implementation timeline.

Early in 1995 several exchanges owned and operated by PTI offered 1+ dialing to its customers at the request of the long distance companies. These same long distance companies asked Ameritech to make a similar offering in its exchanges, but it refused. The long distance companies filed a complaint against Ameritech with the PSC. A hearing was held, and based on the record and its prior order the PSC ordered Ameritech to offer 1+ dialing in its exchanges by July 1, 1996, unless hardware

is also required or a waiver is granted. Ameritech must begin to start cutting over its switches to 1+ dialing as early as January 1, 1996.

The PSC expects the remainder of the state to have 1+ dialing by January 1, 1998. However, this will require additional complaint hearings and rulemaking.

Caller Identification

In December 1993, the PSC authorized the provision of Caller Identification (Caller ID) services by Wisconsin Bell (Ameritech). Caller ID provides a subscriber, who has purchased the necessary hardware, the ability to identify incoming calls prior to answering them. Ameritech will provide the service for a monthly fee but the customer must purchase the equipment necessary to identify incoming calls from a telecommunications equipment vendor.

Because privacy was a major issue in this controversial docket, the PSC provided safeguards beyond those required by the Legislature to ensure the rights of both the caller and the person being called. The safeguards will be implemented with the service.

These safeguards include free per-call blocking for everyone and free per-line blocking for certain advocacy groups such as domestic abuse organizations. The PSC also authorized these organizations to place requests on behalf of domestic violence victims for free per-line blocking. (Per-call blocking requires a caller to enter a three-digit code, *67, prior to dialing to prevent their number from being identified while per-line blocking is automatic and requires no code.)

About one year after Caller ID was initially offered, the PSC authorized Ameritech to add the Caller ID with name to its Caller ID service. Caller ID with name is viewed by the PSC as an enhancement of the

original service offering and therefore did not require additional hearings. The safeguards implemented by the PSC when Caller ID was originally approved will remain in effect to protect the rights of both the caller and the person being called.

WITS Granted Permanent Authority as ATU

In November 1994 the PSC granted permanent certification to the Wisconsin Independent Telecommunications System, Inc., (WITS) to operate as an Alternative Telecommunications Utility (ATU). WITS, a consortium of local telephone exchange companies (LECs), will now be able to negotiate contracts for the provision of Video Distance learning (VDL). However, the permanent authority granted to WITS is "conditioned."

Many of the conditions treat WITS as though it were a statewide public utility for administrative purposes. Doing so will prevent WITS, as a surrogate for the LECs, from exploiting its opportunity to favor WITS in the VDL marketplace. One of the principle conditions imposed by the PSC on WITS is that it may not receive more favorable pricing or provisioning from any LEC than any potential competitor is able to receive. Other conditions prohibit WITS from acquiring use of customer or proprietary network information and video access services for VDL unless it pays traditional access charges or the supplying LECs provide a distance-sensitive charge for VDL access that is in proportion to cost.

In granting permanent authority to WITS with conditions, the PSC believes that it is meeting the Legislature's objectives of deploying new VDL rapidly while at the same time ensuring that potential competitors are not foreclosed from the marketplace due to the market power of the LECs.

PSC Levels Playing Field for COCOTS

In December 1994 the PSC eliminated the prohibition on providers of customer owned coin operated telephones (COCOTs) from charging end users for calls to directory assistance. The PSC's action provides COCOTs with the flexibility they need to compete more effectively with Ameritech payphones. Ameritech increased the rate it charges for coin calls, including directory assistance, to 35 cents per call at the beginning of December 1994.

COCOTs will now be allowed to charge the same as Ameritech charges its end use customers. The PSC capped the rate the COCOTs may charge at the rate authorized for the local exchange carrier in the exchange where the payphone is located.

PSC's Wisconsin Bell Moratorium Decision Upheld

In April 1995 the state Court of Appeals affirmed the PSC's 1990 order refunding a total of nearly \$30 million to Wisconsin Bell, Inc. (now Ameritech) customers. The refund was the result of a two-year incentive regulation experiment involving Wisconsin Bell.

In the experiment, known as the Wisconsin Bell Moratorium because it included a two-year moratorium on rate increases, the telephone company was allowed to earn a 13.5 percent rate of return on equity. However, if the company, through improved performance and increased efficiency, earned a higher return, it would be permitted to keep excess earnings up to 14 percent. Earnings between 14 percent and 15.5 percent were shared equally with ratepayers while earnings above the 15.5 percent level were returned entirely to ratepayers. The PSC originally set the

refund amount at \$26.3 million.

Nevertheless, after a court ordered revision, the PSC concluded that the implementation of its original calculating process was reasonable except for the treatment of Accumulated Deferred Income Tax Credit (ADITC). The reversal of the original ADITC decision resulted in an additional refund to Wisconsin Bell customers of \$3.66 million bringing the total amount to \$29.96 million.

Universal Service Fund Council Meets

The Universal Service Fund Council established by the PSC held its first meeting in January 1995 to share concerns and views on the various issues related to Universal Service. The Council was created as part of the Information Superhighway Bill (1993 Wisconsin Act 496) passed by the Legislature in the summer of 1994. The Act created the Universal Service Fund to: (a) maintain affordable prices for communications services for low-income and disabled customers in high cost service areas; and (b) promote statewide affordable access to high-quality education, library, and health care information services. The Universal Service Fund Council will meet on a regular basis to provide advice to the PSC.

Telecommunications Privacy Council Established by the PSC

In October 1994 the PSC established the framework for and named representatives to the Telecommunications Privacy Council. Establishment of the Council stems from the recently enacted 1993 Wisconsin Act 496. The 13-member Council will be comprised of representatives of consumers of telecommunications services and

telecommunications providers. The Council will advise the PSC on matters concerning the administration of state statutes as well as the content of administrative code rules adopted to comply with Act 496.

PSC Moves to Protect the Privacy of Telecommunications Customers

The PSC is concerned about the privacy of the state's telecommunications customers and has proposed rules it believes will protect that privacy. When this report was written, the PSC was attempting to learn from the public what they think of the proposed rules and if there are any changes that could be made to improve them.

The proposed rules identify several types of telecommunications related information that could raise privacy concerns. The proposed rules state that a telecommunications company shall not make available to a third person or corporation the records of its customers without first obtaining written consent from the subscriber. Specifically, the rules address such services as caller identification, nonlisted and nonpublished numbers, list rental agreements, call trace services, customer records, and a notice to customers. The PSC held a public hearing in late June 1995 to discuss the proposed rules to protect the privacy of telecommunications customers. Comments and letters, as well as testimony, will be considered before the PSC finalizes the rules.

Ameritech/GTE North Price Regulation and Investment Commitment Plan

Ameritech and GTE North Incorporated (GTE North) elected price regulation

pursuant to 1993 Wisconsin Act 496. As a result of this election, both companies were required to file plans outlining their respective utility's commitment to invest in telecommunications infrastructure in their Wisconsin based operations over a period of not less than six years. The PSC determined that both plans met the statutory requirements and that it was in the public interest to accept the plans and approve a system of reporting and monitoring.

The investment commitment plan filed by Ameritech calls for it to invest \$700 million over the six-year plan period.

The investment commitment plan filed by GTE North requires it to invest an amount between \$235 and \$290 million over the six-year plan period. The total investment commitment must include only capital investments or capitalized expenses. The plan also includes a level of planned contributions to the Wisconsin Advanced Telecommunications Foundation. The Foundation will help stimulate demand for new telecommunications technology and teach people how to use new technology as it is developed.

PSC Develops Price Regulation to Implement 1993 Wisconsin Act 496

The PSC has opened several rulemaking dockets on various issues in order to implement the provisions of 1993 Wisconsin Act 496. Privacy rules were mentioned earlier. Other rules address the mechanics of price regulation, universal service, provider certification, intraLATA presubscription, and Extended Community Calling, to name just a few. These rules will be submitted to the Legislature for its approval in the weeks and months to come.

Telephone Rate Case Actions

<u>Docket</u>	<u>Utility</u>	<u>Dollars Requested</u>	<u>Dollars Granted</u>	<u>Final Order</u>	<u>Percent Change</u>
300-TR-103	Badger Telecom, Inc.	\$47,600	\$124,766	06/08/94	10.02
1910-TR-101	Fairwater-Brandon-Alto Telephone	195,464	193,846	04/08/94	68.40
2050-TR-101	Forestville Telephone	58,000	419,600	01/05/94	71.00
2520-TR-101	Headwaters Telephone	488,700			
3070-TR-101	Larsen-Readfield Telephone	355,268	334,846	10/06/94	80.20
3790-TR-101	Mondovi Telephone	99,215	91,629	11/04/94	20.53
3810-TR-103	Monroe County Telephone	630,318	611,274	08/31/94	42.81
4580-TR-103	Grantland Telecom, Inc.	20,700	251,816	06/01/94	39.43
4590-TR-100	Peoples Telephone	378,312	312,523	02/25/94	26.12
5020-TR-103	Rhineland Telephone	495,430	495,430	06/06/95	22.19
5280-TR-101	Scandinavia Telephone	263,346	159,356	06/06/95	42.88
5530-TR-101	Solon Springs Telephone	2,635,945	2,527,428	06/21/94	97.95
6030-TR-100	UTELCO, Inc.	641,220	449,231	05/02/94	16.16
6040-TR-103	Universal Telephone of Northern Wisconsin, Inc.	1,752,052	2,294,037	06/21/94	83.25

* * *

DIVISION OF ADMINISTRATIVE SERVICES

PSC Moves to New Office Quarters

A significant project for the PSC culminated in the agency's move to new office quarters in early 1995. Known as the Public Service Commission of Wisconsin Building, the new facility is located at 610 North Whitney Way on Madison's west side and was designed and built by the owner, Marshall Erdman and Associates. The new location, at the intersection of Whitney Way and Old Middleton Road, is just two blocks from the agency's previous offices in the Hill Farms State Office Building. Also occupying space in the building are other state agencies, including the Railroad Commission, the Department of Transportation and the Department of Revenue. Groundbreaking for the building took place on March 15, 1994, and the agency made the move to its new location on January 13, 1995. The move is the result of two years of close coordination between the PSC's Division of Administrative Services, the State Department of Administration, and the Marshall Erdman staff.

The PSC occupies 38,487 square feet of the four-story building, including the entire second and third floors. The agency's 2,000 square foot hearing room, which is capable of supporting videoconferencing, is located on the first floor to allow for ease of public access. In keeping with the agency's role and the fast changing technology in the telecommunications industry, the building's infrastructure is set up to allow for future expansion of advanced telecommunications and teleconferencing services, and to allow for high speed transfer of data, video, and

voice. The building will allow for future growth of new technology when it becomes available.

Because of its utility role, the PSC was eager to have Marshall Erdman and Associates demonstrate the latest energy saving technologies in the new building. Special energy conservation features include: electronic fluorescent light ballasts and T8 lamps, LED exit lights, room lighting with occupancy sensors, compact fluorescent downlights, high efficiency boilers, "low E" insulating glass, low voltage light switching and dimming ballasts with photocell sensors, air cooled chiller with ice storage, electrical power demand monitor, variable frequency drives for supply/return air fans, monitored and controlled air quality and ventilation rates, and completely computerized mechanical systems. Water applications within the building exceed California Water Conservation Guidelines.

These engineering innovations are expected to bring significant reductions in every energy-use area including light, heating, cooling and general building envelope. Of particular interest is a reduction of energy use during peak demand, or daytime hours. A thermal energy storage system operates conventional cooling equipment at night to make and store 150,000 pounds of ice which provides cooling during daylight hours.

Some interesting facts regarding the building include:

- * The avoided daytime power consumption due to the high efficiency upgrades and peak power shifting is enough to power 100 average homes in the area.
- * The natural gas saved by high efficiency boilers is enough to heat six homes.

- * The overall insulating value of the building envelope is double the state code minimum.
- * The anticipated energy savings due to the building's enhanced performance and efficiency will result in a \$40,000/year reduction in operating cost.

AWP benefits the agency and employees alike, and maximizes the employment options available to existing and potential state employees.

Intervenor Requests Approved by PSC

Alternative Work Patterns

The PSC continues to have a strong Alternative Work Patterns (AWP) program with a high rate of participation. Of the PSC employees, approximately 66 percent work a nonstandard or flexible schedule. Only 28 percent of our employees work a standard 7:45-4:30 Monday through Friday schedule. Six percent work a part time schedule varying from half time to 90 percent.

PSC proceedings continue to draw significant interest from groups wishing to make their case for changes in utility regulation. Intervenor compensation funding has provided numerous groups the ability to intervene in PSC proceedings.

In the 1993-1995 biennium, the PSC received a total of \$500,000 in base funds and \$300,000 in one-time funding. The PSC has approved \$793,196 of compensation during this biennium up to May 15, 1995.

Intervenor Financing Report As Of May 15, 1995

<u>Docket No.</u>	<u>Intervenor</u>	<u>Approved</u>
05-CE-105	Power, Inc.	\$ 17,119
05-EI-108	Electromagnetic Research Foundation	1,940
	Wisconsin Farmers Union	21,400
05-EI-114	Citizens' Utility Board	53,358
	International Brotherhood of Electric Workers	7,309
	RENEW, Inc.	11,000
	Wisconsin Community Action Program (WISCAP)	8,430
	Wisconsin Environmental Decade	20,280
05-EI-14	Citizens' Utility Board	22,365
05-EP-7	Alliance for Clean Energy Systems	52,650
	Citizens' Utility Board	85,064
	RENEW, Inc.	102,605
	Wisconsin Community Action Program (WISCAP)	59,125
	Wisconsin Environmental Decade	82,715
05-TI-128	Wisconsin Coalition Against Domestic Violence	2,924
1-AC-140	Wisconsin Environmental Decade	7,350
3270-UR-107	Citizens' Utility Board	12,715
	Citizens' Utility Board	1,410
4220-UR-107	Wisconsin Environmental Decade	3,700

Intervenor Financing Report As Of May 15, 1995

(continued)

6630-CE-197	Citizens' Utility Board	14,950
	Lake Michigan Coalition	22,000
	RENEW, Inc.	6,180
6630-CE-202	RENEW, Inc.	14,000
6630-CE-209	Citizens' Utility Board	75,035
6680-UR-108	Citizens' Utility Board	11,449
	RENEW, Inc.	17,725
6680-UR-109	Citizens' Utility Board	7,620
	Independent Heating Contractors	19,178
6690-CE-156	Citizens' Utility Board	4,430
6690-UR-107	RENEW, Inc.	165
6690-UR-108	Citizens' Utility Board	8,540
	RENEW, Inc.	5,700
6720-TR-107/	Center for Public Representation	9,100
6720-TI-108	Citizens' Utility Board	3,665
	Totals To Date	\$793,196

AGENCYWIDE PROCESS IMPROVEMENTS

Strategic Business Plan - The PSC's 1992 Strategic Business Plan stated that, "We will identify those activities which the PSC can be involved in to a lesser degree or that can be completely delegated to the utilities." To implement this strategy, utilities, PSC staff, and intervenors were asked to identify activities, forms, and filings that could be discontinued or streamlined. Building on information from the survey, significant improvements have occurred regarding PSC decision-making, depreciation studies, filing requirements for investor-owned utilities and municipal rate case audits.

Decision-Making - Over the years, the PSC had delegated to the Examiner or the Division Administrator 23 types of

decisions. In an effort to be more responsive to its customers and to facilitate spending more of its limited resources on emerging competition and restructuring issues, the PSC, in May 1994, delegated 30 additional types of decisions to Examiners and Division Administrators. Standards were also adopted for when delegated actions would be brought back to the Commission. The types of decisions which are delegated are primarily those which are routine and noncontroversial, administrative matters, or when timeliness is of the essence. At the same time a process was developed to facilitate delegation of additional types of decisions as the needs are identified.

Depreciation Studies - The depreciation process has been continuously improved and

streamlined. As a result of the surveys and changes in regulation, major improvements to further streamline and simplify PSC processes are being implemented in 1995. The improvements include:

- * Granting utilities the authority to expense small value equipment up to \$2,000; and an amortization method for small value equipment which would eliminate retirement accounting and current inventories.
- * Simplified plant questionnaires requesting only relevant information for the depreciation study.
- * Continued effort to realize a computer to computer exchange of data.
- * Frequency of depreciation studies is changed so that Class A/B municipal utilities and major private energy companies file every six years, and nonmajor private energy companies file every ten years.
- * Benchmarks will be used to focus depreciation studies on accounts or utilities needing analysis.

Electric and Gas Utility Filing

Requirements - The rate case filing requirements for electric and gas utilities were streamlined, eliminating all requests for information that is not essential in rate cases in which the utility requests a change in rates. In addition, a review was done regarding what information is necessary when a utility does not request a change in rates. In both instances the amount of information requested is substantially reduced and the format is easier for all to work with.

Municipal Rate Case Audits - Field or desk audits for municipal utility rate cases have been substantially eliminated and actual activities must be explained by the applicant. The information the PSC is requiring from the utility is the same kind of information the utility should be compiling for internal purposes when determining the need for a

rate change. In order for the PSC to issue a municipal rate case order and authorize that rates are reasonable and just, PSC staff still needs to conduct a limited review of that utility's revenue requirement. To accomplish this questionnaires were developed for the different types of utilities to submit with their rate change application. These questionnaires have been designed in a logical and methodical format so that when the utility or its consultant has completed the form, all facets of the revenue requirement will have been clearly and concisely set out for staff review.

Initially, to implement the change, PSC staff will need to provide training to utility staff on how to prepare the revenue requirement information. In the long run, there will be significant savings in PSC staff resources and travel expenses.

Rate Cases Streamlined - The Electric Division, in concert with the Division of Water, Compliance and Consumer Affairs, has implemented an expedited rate case process for municipal electric utilities. As a result, lesser PSC staff time will be necessary on these cases as the municipality will assume greater accountability for its filings. In addition, greater latitude is being given to the municipal electric utilities to implement a rate design structure that responds to increased competition in the industry.

Streamlined rate case filing requirements for the large investor-owned utilities have also been recently implemented. This reduces the number of forms that utilities must prepare and file with the PSC.

The Electric Division has contributed to the agency's efforts to more efficiently match resource needs.

In the ongoing Advance Plan the PSC instituted a process to limit the resources expended to complete the docket. This has served to focus more attention on containing the total number of agency employees

addressing all necessary issues. This efficiency effort resulted in a dramatic reduction in the size of the process and resources expended by all parties involved.

Information Technology - The Commission continues to use computer and telecommunications technology to better serve the public. Recently, this has included receiving and disseminating information

electronically. For example, in order to prepare a legislative report on telecommunications infrastructure, PSC staff offered interested parties the option of filing written comments via Internet e-mail. The PSC has also used the Badger Gopher and its own electronic bulletin board (608-261-8527) to post information items of interest for viewing and downloading.

COMMISSION DIRECTORY

COMMISSIONERS

Cheryl L. Parrino
 Chairman 267-7897
 Scott A. Neitzel
 Commissioner 267-7899
 Daniel J. Eastman
 Commissioner 267-7899

COMMISSIONERS' OFFICE

Jacqueline K. Reynolds
 Executive Assistant 267-7897
 Lynda L. Dorr
 Secretary to the Commission 266-1266
 Jeffrey L. Butson
 Public Affairs Director 267-0912
 Steven M. Schur
 Chief Counsel 266-1264

ELECTRIC DIVISION

Susan E. Stratton
 Administrator 266-0699
 Gary R. Mathis
 Assistant Administrator 266-2307
 Robert D. Norcross
 Assistant Administrator 267-9229
 Paul C. Newman
 Engineering Manager 267-5112
 Lanny L. Smith
 Director, Technical Unit 266-3165
 Barbara E. James
 Division Chief Counsel 267-9203

NATURAL GAS DIVISION

Anita Sprenger
 Administrator 267-3590
 Donna J. Holznecht
 Assistant Administrator 267-7972
 Daniel L. Sage
 Assistant Administrator 267-9486
 Robert J. Mussallem
 Division Chief Counsel 266-1462

EXAMINING DIVISION

Ann Pfeifer
 Administrator 266-5473
 Donna L. Paske
 Hearing Examiner 266-7173
 John J. Crosetto
 Hearing Examiner 266-7165

TELECOMMUNICATIONS DIVISION

Scot Cullen
 Administrator 266-1567
 Gary A. Evenson
 Assistant Administrator 266-6744
 Nicholas A. Linden
 Assistant Administrator 266-8950
 Glenn Kelley
 Division Chief Counsel 267-2889

DIVISION OF ADMINISTRATIVE SERVICES

Georgia L. Mulcahy
 Administrator 266-3587
 Barbara D. Bartz
 Director, Information Systems 266-3843
 Gordon O. Grant
 Director, Fiscal Services 267-9086
 Paul M. Hankes
 Director, Human Resource Services 266-9315
 Karl C. Hillman
 Manager, Records Management 267-2897

DIVISION OF WATER, COMPLIANCE AND CONSUMER AFFAIRS

Joyce A. Narveson
 Administrator 267-7829
 Mary Pat Lytle
 Assistant Administrator 267-9491
 David A. Sheard
 Assistant Administrator 266-9640
 Steven A. Levine
 Division Legal Counsel 267-2890