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December 15, 1999

BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Public Service Corporation For Approval  
to Increase Electric and Natural Gas Rates

6690-UR-111

**FINAL DECISION**

This is the final decision in the Commission's proceeding on Wisconsin Public Service Corporation's ("WPSC") application to increase electric rates for calendar year 2000. WPSC's application is GRANTED IN PART.

A rate increase of \$21,051,512 is authorized for Wisconsin retail electric operations. Rates shown in Appendix B are authorized for Wisconsin retail electric service beginning January 1, 2000, and will be in effect until superceded by an order establishing new rates.

**Introduction**

On January 14, 1999, the Commission issued an order authorizing a rate increase of \$26,942,000 for Wisconsin retail electric operations and \$10,280,000 for Wisconsin natural gas operations for WPSC. In that order, the Commission also determined that it was reasonable to reopen the docket and hold a hearing in the fall of 1999 to address certain issues affecting WPSC's revenue requirement in 2000.

The issues that the order identified for reopening were as follows: 1) the fuel forecast for 2000; 2) the Pulliam 3 deferral; 3) Kewaunee depreciation expense and decommissioning annuity amounts after steam generator replacement is completed; 4) Kewaunee ownership changes and related asset level changes; 5) the reduced fuel costs associated with WPSC's

increased ownership share in Kewaunee; and 6) the appropriate rate treatment of all revenue requirement impacts associated with WPSC's construction of a combustion turbine (CT) for Madison Gas and Electric Company (MGE), including the fully-allocated cost of WPSC's internal labor, as well as carrying costs associated with the expenditures.

Subsequent to the issuance of the January 14, 1999, order, the Kewaunee steam generator replacement was postponed from the spring of 2000 until the fall of 2001 due to delays in fabrication. Because of this delay, issue nos. 3, 4, and 5, identified above, were not addressed in this proceeding. It is appropriate to address these issues, whose timing is dependent upon the timing of the steam generator replacement, in WPSC's next scheduled rate filing, which will be filed in 2000 for a 2001 test year. In addition, because of the delay in the steam generator replacement, it was necessary to include the issue of the Kewaunee 2000 steam generator repair and refueling outage in this proceeding.

In its filing for this reopener, dated July 1, 1999, WPSC requested a rate increase of \$20.9 million for its Wisconsin retail electric operations for 2000, a 4.6 percent increase, to recover its costs associated with the issues described above as well as two additional issues, and no change in its natural gas rates.

On August 6, 1999, the Commission issued an order authorizing consideration of the six issues addressed in WPSC's July 1, 1999, application. The six issues are: 1) the fuel forecast for 2000; 2) the Pulliam 3 deferral; 3) the appropriate rate treatment of all revenue requirement impacts associated with WPSC's construction of a CT for MGE, including the fully-allocated cost of WPSC's internal labor, as well as carrying costs associated with the expenditures; 4) the Kewaunee 2000 steam generator repair and refueling outage; 5) the refund of replacement power costs associated with the Kewaunee mid-cycle shutdown that were made subject to refund in

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docket 6690-UR-110; and 6) WPSC's share of the net credit resulting from the initial cash payment portion of the settlement between a vendor and the joint owners of Kewaunee regarding potential litigation of steam generator tube degradation and maintenance, offset by the cost of the deferred 1998 steam generator repair costs.

In supplemental testimony dated August 30, 1999, WPSC increased the amount of additional revenue it was requesting by \$2,496,457 to reflect additional fuel costs in 2000.

A hearing was held on October 12, 1999, to address the above issues.

### **Findings of Fact**

1. The Commission finds that the resulting test year fuel cost of \$179,274,000 is reasonable for the purpose of setting just and reasonable rates and reflects the cost of generation, purchased energy, wheeling, and capacity less the revenue from opportunity sales of energy and capacity. The test year fuel cost divided by the test year estimate of net native energy requirements of MWh results in an average net fuel cost per kWh of \$0.01413. The test year fuel cost is an average of the monthly fuel estimates contained in Appendix D.

2. It is reasonable for rates in this proceeding to reflect recovery of \$1,520,924 for the Pulliam 3 deferral.

3. It is reasonable for rates in this proceeding to reflect a refund of \$3,459,324 to Wisconsin retail electric ratepayers for the revenue requirement impact of WPSC constructing the M-34 CT for MGE, including the Wisconsin retail portion of the fixed fee.

4. It is reasonable for WPSC to account for the operation of the M-34 CT as an "above-the-line" activity.

5. It is reasonable to allow WPSC to recover \$4,779,146 from Wisconsin retail electric ratepayers for the Kewaunee 2000 refueling outage and steam generator repair.

6. It is reasonable that the Wisconsin retail portion of WPSC's share of the estimated steam generator repair costs of \$2,389,573 be escrowed so that any variation can be tried up in the next rate proceeding.

7. It is reasonable that any over- or under-collection of steam generator repair costs incurred during the Kewaunee 2000 refueling outage be afforded carrying costs, at a rate to be determined in the next rate proceeding.

8. It is reasonable for rates in this proceeding to reflect a refund of \$1,729,027 for replacement power costs associated with a mid-cycle shutdown at Kewaunee that were made subject to refund by the Commission in docket 6690-UR-110.

9. It is reasonable for rates in this proceeding to reflect a refund of \$387,010 for the net credit resulting from WPSC's share of the initial cash payment resulting from a settlement with a vendor regarding the degradation and repair of Kewaunee steam generator tubes, offset by WPSC's share of deferred 1998 steam generator repair costs.

10. It is reasonable to design rates for the 2000 test year that would give each customer class approximately the same percentage increase as shown in Appendix B.

#### **Conclusions of Law**

1. WPSC is a public utility as defined in Wis. Stat. § 196.01.
2. The Commission has authority under Wis. Stat. §§ 196.02, 196.03, 196.20,

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196.37, and 196.39 to issue the following order amending its January 14, 1999, and August 6, 1999, orders in this docket.

## **Opinion**

### **2000 Fuel Forecast**

The Commission finds that a reasonable fuel cost estimate for calendar year 2000 is \$179,274,000 reflecting the cost of generation, purchased energy, wheeling, and capacity less the revenue from opportunity sales of energy and capacity. The test year fuel cost divided by the test year estimate of net native energy requirements of 12,683,719 MWh results in an average net fuel cost per kWh of \$0.01413. The test year fuel costs are an average of the monthly fuel estimates for 1999 in Appendix D. The approved level of year 2000 fuel costs includes the amount included in WPSC's filing in this proceeding, cost increases for additional outages related to nitrous oxide emission control, less staff increases in sales for resale.

These monthly estimates will continue to be monitored during 2000 using the method and ranges established in the original order in docket 6690-UR-111. It is reasonable that the method of application of those ranges, established in prior Commission decisions for WPSC, continue to be utilized. It is appropriate to use the data in Appendix D for monitoring these ranges.

### **Pulliam 3 Deferral**

The Commission finds it reasonable to include \$1,520,924 in rates for deferred costs associated with bringing Pulliam Unit No. 3, which had previously been in long-term layup status, back into service during the summer of 1997 and its subsequent operation through December 31, 1998. These deferred costs were not included in the base rates authorized in the Commission's January 14, 1999, order in this docket because, at the time of the technical hearing

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in October 1998, WPSC had not yet identified all of the costs associated with a spring 1998 maintenance outage at that unit. Because of that, the Commission authorized WPSC to continue deferring the costs until the reopening of this docket.

### **Revenue Requirement Impact of WPSC Building M-34 for MGE**

In its January 14, 1999, order in this docket, the Commission ordered the revenue requirement impact of WPSC building the M-34 CT for MGE to be deferred until this reopening. The deferred costs are comprised of the fully-allocated costs of WPSC's internal labor associated with the construction of this CT that were included in base rates established in the Commission's January 14, 1999, order in this docket. The Commission finds it reasonable to include a refund of \$352,216 in rates for this activity.

Another element of this transaction is the fixed fee WPSC is charging MGE for the construction of the M-34 unit. The fixed fee includes the value to WPSC for the loss of the M-34 site for the next WPSC unit, costs associated with performing the project for an external customer, and a management fee. The Commission finds that the Wisconsin retail portion of this fee, \$3,107,108, should be refunded to Wisconsin retail customers in this proceeding. The Commission also finds it reasonable for WPSC to account for the operation of the M-34 unit as an "above-the-line" activity.

### **Kewaunee Refueling Outage and Repair**

This reopening was originally intended to include the various revenue requirement impacts associated with the steam generator replacement which was, at the time of the October 1998 hearing in this docket, expected to take place in the spring of 2000. Subsequent to that hearing, there were delays in the fabrication of the steam generators which caused the

replacement project to be postponed until the fall of 2001. Because of this delay, WPSC is planning to repair the steam generators, if necessary, during the spring 2000 refueling outage.

The Kewaunee refueling outage and repair cost estimate is comprised of two components. The first component is the cost of the normal refueling outage. The Commission finds that this component can be estimated with a reasonable level of accuracy and does not require any true-up treatment be provided. A reasonable estimate of the cost of the refueling outage component is \$7 million (three-company amount). The Wisconsin retail portion of WPSC's share of this amount is \$2,389,573.

The second component is the steam generator repair cost that will be incurred during the refueling outage. In testimony, WPSC identified the estimated range of costs associated with this repair as \$3.5 million to \$10.5 million. The Commission finds that it is reasonable to reflect the midpoint of the range in base rates, which is \$7 million (three-company amount). The amount to be included in rates, which is the Wisconsin retail portion of WPSC's share of this amount, is \$2,389,573.

Using an estimate of \$7 million for the steam generator repair costs results in the potential for WPSC to over-collect or under-collect up to \$1,194,786, based on the Wisconsin retail portion of its ownership share of 41.2 percent. This could have an impact of approximately 15 basis points on return on equity. For this reason, the Commission finds that any variance from the amount included in rates for the cost of steam generator repair should be escrowed and included in the company's revenue requirement in its next rate filing. The Commission also finds that it is reasonable to include carrying costs for any overspent or underspent amounts associated with this repair, at a rate to be determined in the next rate proceeding.

### **Mid-cycle Shutdown Fuel Refund**

In its order in docket 6690-UR-110, dated February 15, 1997, the Commission authorized WPSC to recover replacement power costs related to a 1998 refueling outage at Kewaunee as well as the costs associated with a mid-cycle shutdown at that plant. Because of the uncertainty about whether the mid-cycle shutdown would be necessary, the Commission ordered the replacement power costs associated with this shutdown to be made subject to refund in the event that one or both of these outages did not occur. The Commission ordered that the refund should be based on the total number of equivalent outage days for the 1997 mid-cycle and 1998 outages occurring during the biennial period, compared to a forecast of 84 days. Because the mid-cycle outage did not occur and a refund is necessary, WPSC proposed to include the issue of this refund in the reopening of this docket. The Commission finds it reasonable to refund \$1,729,027 to Wisconsin retail ratepayers in this proceeding.

### **Net of 1998 Kewaunee Repair Costs and Initial Cash Payment in Settlement**

On July 7, 1998, the Commission issued a letter order to the joint owners of Kewaunee authorizing them to defer the out-of-pocket costs incurred after July 2, 1998, associated with repairing the degraded steam generator tubes at Kewaunee during its 1998 refueling outage. Subsequent to the January 14, 1999, order in docket 6690-UR-111, WPSC reached a settlement on behalf of the joint owners of Kewaunee with a vendor regarding potential litigation of steam generator tube degradation and maintenance. In early 1999, the Kewaunee joint owners received a portion of this settlement in the form of a cash payment. In a February 4, 1999, letter to the Commission on behalf of the joint owners, WPSC requested that the cash settlement be offset by the cost of the deferred 1998 repair costs. WPSC proposed to return its portion of the resulting

net credit to ratepayers in its filing in this proceeding. The Commission finds it reasonable to refund this net credit of \$387,010 to ratepayers in this proceeding.

### **Rate Design**

WPSC proposed a rate design that would alter both energy charges and demand charges, based in part on cost-of-service studies presented during the initial hearing in this docket.

Commission staff's rate design also proposed to alter both energy charges and demand charges.

Commission staff's rate design was derived from the allocation of increased incremental costs associated with the reopened portion of this case on the basis of energy. The Commission finds a compromise on rate design is reasonable where each customer class would receive approximately the same percentage increase based on present revenues. This increase altered the energy charges for all rate classes and the lamp rates for street and outdoor lighting schedules.

Commissioner Mettner dissents.

### **Order**

1. This order shall be effective on January 1, 2000.
2. The authorized rates in Appendix B shall be in effect until the issuance of an order by the Commission establishing new rates.
3. WPSC shall prepare bill inserts that properly identify the rates authorized in this order. Copies of such inserts shall be sent to the Commission. WPSC shall distribute these inserts to customers with the first billing containing the rates authorized in this order.
4. A reasonable estimate of fuel costs for each month of the biennial period is attached as Appendix D. Test year rates reflect the monthly fuel cost estimates in the appendix.

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The fuel costs in the appendix will be used for required monthly monitoring of the fuel cost pursuant to Wis. Admin. Code ch. PSC 116.

5. WPSC shall report monthly to the Commission its actual total system cost of generation, purchased energy, capacity, and wheeling costs less the revenues from opportunity sales of energy and capacity. WPSC shall otherwise comply with the fuel cost determination and monitoring system as set forth in the original order in docket 6690-UR-111.

6. In all other respects, the February 14, 1999, order in this docket remains in effect without change.

Dated at Madison, Wisconsin, \_\_\_\_\_

By the Commission:

\_\_\_\_\_  
Lynda L. Dorr  
Secretary to the Commission

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See attached Notice of Appeal Rights

Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in Wis. Stat. § 227.53. The petition must be filed within 30 days after the date of mailing of this decision. That date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

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

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

This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

Revised 9/28/98

APPENDIX A  
(CONTESTED)

In order to comply with Wis. Stat. § 227.47, the following parties who appeared before the agency are considered parties for purposes of review under Wis. Stat. § 227.53.

Public Service Commission of Wisconsin  
*(Not a party but must be served)*  
610 N. Whitney Way  
P.O. Box 7854  
Madison, WI 53707-7854

WISCONSIN PUBLIC SERVICE CORPORATION

by  
Mr. Bradley D. Jackson, Attorney  
Foley and Lardner  
150 East Gilman Street  
Madison, WI 53703

CITIZENS' UTILITY BOARD

by  
Mr. Dennis Dums  
16 North Carroll Street, Suite 300  
Madison, WI 53703

WISCONSIN ELECTRIC POWER COMPANY

by  
Mr. Les Durski  
231 West Michigan Street, P387  
Milwaukee, WI 53201

WISCONSIN PAPER COUNCIL

by  
Mr. Earl Gustafson  
250 North Green Bay Road  
P.O. Box 718  
Neenah, WI 54957-0718

WISCONSIN POWER AND LIGHT CO.

by

Mr. Steve Buss  
Manager of Regulatory Relations  
222 West Washington Avenue, P.O. Box 192  
Madison, WI 53701-0192

MADISON GAS AND ELECTRIC COMPANY

by

Mr. Jeffrey C. Newman  
133 South Blair Street, P.O. Box 1231  
Madison, WI 53703

WISCONSIN END-USER GAS ASSOCIATION

by

Ms. Darcy Fabrizius  
Manager of Regulatory Affairs  
P.O. Box 2226  
Waukesha, WI 53187-2226

KOHLER COMPANY

by

Mr. Michael Potts  
444 Highland Drive  
Kohler, WI 53044

SELECT ENERGY CONSULTING, LLC

by

Mr. George E. Wennerlyn  
1549 Grosse Point Drive  
Middleton, WI 53562

WISCONSIN INDUSTRIAL ENERGY GROUP

by

Mr. Richard L. Olson, Attorney  
LaFollette & Sinykin  
One East Main Street, P.O. Box 2719  
Madison, WI 53701-2719

WICOR ENERGY

by  
Ms. Mary Wolter  
Operations & Risk Manager  
306 N. Milwaukee Street  
Milwaukee, WI 53202

ENERGY SOLUTIONS, INC.

by  
Ms. Valerie Kelm  
2386 Dahlk Circle  
Verona, WI 53593

WISCONSIN COALITION FOR FAIR COMPETITION

by  
Mr. Warren J. Day, Attorney  
30 West Mifflin Street, Suite 401  
Madison, WI 53703

TOMAHAWK POWER AND PULP COMPANY

by  
Mr. Frank Jablonski, Attorney  
Porter, Jablonski & Associates, S.C.  
7 North Pinckney Street  
Madison, WI 53703

NORTHERN STATES POWER COMPANY

by  
Mr. John D. Wilson, Attorney  
100 North Barstow Street  
P.O. Box 8  
Eau Claire, WI 54702-0008