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PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Public Service Corporation for Authority to
Adjust Electric and Natural Gas Rates

6690-UR-121

FINAL DECISION

This is the Final Decision in the rate proceeding regarding Wisconsin Public Service Corporation's (WPSC) application to adjust rates. WPSC's Wisconsin retail electric rates are maintained at current levels, reflecting a \$28.5 million revenue deficiency offset by: (1) an estimated \$19.2 million 2012 Wisconsin retail fuel cost refund; (2) an estimated \$-0.7 million of 2013 Wisconsin deferred retail electric fuel-related costs; (3) an estimated \$0.3 million of 2013 Wisconsin deferred retail electric transmission-related costs, (4) an estimated \$8.3 million of 2013 Wisconsin deferred retail electric incremental pension and benefit costs; and (5) an estimated \$1.4 million of 2013 Wisconsin deferred retail electric incremental cost of debt.¹ The 2013 Wisconsin retail electric deferral of incremental pension and benefits are capped at the above amount. WPSC's natural gas distribution rates are decreased by \$3.4 million, including the impact of the approved deferral of \$2.4 million regarding the 2013 Wisconsin retail incremental pension and benefits cost, also capped.² A rate case settlement is included (Appendix B).

¹ Because the amounts are not yet known for the following: the 2012 Wisconsin retail fuel cost refund, the 2012 Wisconsin retail electric fuel cost refund true-up (which is the difference between the actual 2012 Wisconsin fuel refund and the estimated 2012 Wisconsin fuel refund), and the 2013 Wisconsin retail electric deferral of incremental pension and benefit costs, these amounts will be calculated as of the close of December 2012 business, and filed with the Commission by March 1, 2013, with the change in the deferrals for the 2012 Wisconsin retail fuel cost refund and the 2012 Wisconsin retail electric fuel refund true-up offsetting each other.

² The actual 2013 Wisconsin retail gas incremental pension and benefits costs will be calculated as of the close December 2012 business and will be filed with the Commission by March 1, 2013.

EXHIBIT 6

Introduction

On March 30, 2012, WPSC filed a request to increase electric and natural gas rates, by \$85.1 million (9.2 percent) and \$12.8 million (3.7 percent), respectively, to be effective January 1, 2013. On October 3, 2012, WPSC filed a request with the Commission to approve a rate case settlement regarding the March 2012 rate application. The Commission requested comments on the proposed rate case settlement. Comments in favor of the settlement were received from WPSC, Citizens Utility Board, Wisconsin Industrial Energy Group, Inc., and Wausau Paper Corp. Comments in opposition to the settlement were received from RENEW Wisconsin (RENEW), Clean Wisconsin and several members of the public. RENEW filed a motion to strike the comments of WPSC.

The settlement proposal was to maintain WPSC's 2013 Wisconsin retail electric rates at current 2012 levels and to reduce WPSC's 2013 Wisconsin retail natural gas distribution rates. The rate settlement proposal was a result of discussions held between WPSC, intervenors, and Commission staff. Those discussions covered all aspects of the revenue requirements and WPSC's proposed Revenue Stabilization Mechanisms (RSM). Under the settlement proposal, WPSC's 2013 Wisconsin retail electric rates would be maintained at current 2012 levels and natural gas rates would be decreased. The electric rate settlement calculation started with Commission staff's audit proposal for a WPSC 2013 Wisconsin retail electric revenue increase, which would then be fully offset by an assumed 2012 Wisconsin retail electric fuel rule refund of an equal amount. Using this rate settlement as a foundation, costs related to electric fuel (\$-0.7 million), electric transmission (\$0.3 million), pensions and benefits (\$8.3 million), and cost of debt (\$1.4 million) were then updated and are approved for deferral in this Final Decision. For

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the gas utility, the revenue requirement would be decreased by \$3.4 million, including the impact of the deferral of \$2.4 million of 2013 incremental pension and benefits costs. Not all parties were in agreement with the rate settlement proposal, as Clean Wisconsin and RENEW wanted to bring certain net metering issues before the Commission in a traditional rate case setting.

The Commission considered this matter at its open meeting of October 24, 2012. The parties, for purposes of review under Wis. Stat. §§ 227.47 and 227.53, are listed in Appendix A.

Findings of Fact

1. It is reasonable to maintain existing base retail electric rates.
2. It is reasonable to reduce retail natural gas distribution rates by \$3.4 million.
3. It is reasonable to adopt the rate settlement agreement contained in Appendix B, including the gas distribution rate design set forth in Attachment B of the rate settlement agreement.
4. The reasonable level of expensed conservation costs recoverable in rates for the 2013 test year is \$19,778,728 for electric utility operations and \$7,056,977 for natural gas operations. The level of electric utility operations consists of the conservation budget of \$17,669,792, and an escrow adjustment of \$2,108,936, which represents the test-year amortization of the projected overspent escrow balance at December 31, 2012, over two years. The level for natural gas operations consists of the conservation budget of \$8,388,602 and an escrow adjustment of (\$1,331,625), which represents the test-year amortization of the projected underspent escrow balance at December 31, 2012, over two years.
5. Escrow accounting for a Farm Rewiring Program is appropriate. A reasonable level of expensed Farm Rewiring costs recoverable in rates for the 2013 test year is \$1,000,000.

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6. It is appropriate to continue to record these conservation and farm rewiring amounts until the Commission authorizes new accrual amounts.

7. The 2013 test-year fuel rules monitored fuel cost of \$342,426,000, or \$24.80 per megawatt-hour (MWh), is reasonable.

8. It is reasonable to monitor all fuel costs using an annual bandwidth of plus or minus 2 percent.

9. It is reasonable to forecast the test-year cost of spot coal and natural gas used for electric generation purposes and electricity prices by using the October 15, 2012, New York Mercantile Exchange (NYMEX) futures prices.

10. It is reasonable that updated costs and deferrals related to electric fuel (\$-0.7 million), electric transmission (\$0.3 million), pensions and benefits (\$8.3 million), and cost of debt (\$1.4 million) be incorporated into the rate settlement calculations for electric retail rates.

11. It is reasonable that updated costs and deferrals related to natural gas pension and benefits (\$2.4 million) be incorporated into the rate settlement calculations for natural gas retail rates.

12. It is reasonable that regulatory amortizations be made for 2013, as shown in Appendix B, Attachment E. No carrying costs will be accrued for deferrals and amortizations regarding pensions and benefits or interest cost changes. Deferrals for pensions and benefits and interest cost changes are capped at the levels identified in this decision.

13. A long-term range of 49 percent to 54 percent for WPSC's common equity ratio, on a financial basis, is reasonable and provides adequate financial flexibility.

14. It is reasonable for the Commission to determine what and how much debt imputation to include in the financial capital structure based on its assessment and allocation of any associated risk rather than the assessment of any rating agency.

15. No debt equivalent for off-balance sheet obligation categories of advances from affiliated companies, affiliated capital leases, purchased power capital leases, guarantees, underfunded pension and other post-retirement employee benefit plans, and asset retirement obligations is imputed into the financial capital structure for the test year.

16. A reasonable estimate of the debt equivalent of WPSC's off-balance sheet obligations relating to its non-purchased power operating leases, Purchased Power Agreements (PPA), and wind-related land leases to be imputed into the financial capital structure for the test year, is \$70,433,828.

17. A reasonable estimate of subsidiary debt to be imputed into the financial capital structure for the test year is \$6,701,245.

18. A reasonable financial capital structure for the test year consists of 51.01 percent common equity, 2.35 percent preferred stock, 39.38 percent long-term debt, 3.71 percent short-term debt, and 3.55 percent off-balance sheet obligation debt equivalents, including subsidiary debt.

19. It is reasonable to revise WPSC's dividend restrictions based on the capital structure determinations in this proceeding.

20. It is reasonable to require WPSC to submit a ten-year financial forecast in its next rate proceeding.

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21. It is reasonable to require WPSC to submit in its next rate proceeding detailed information regarding all off-balance sheet obligations for which the financial markets will calculate a debt equivalent.

22. A reasonable utility capital structure for ratemaking for the test year consists of 51.61 percent common equity, 2.51 percent preferred stock, 41.93 percent long-term debt, and 3.95 percent short-term debt.

23. A reasonable interest rate for short-term borrowing is 0.43 percent for the test year.

24. A reasonable average embedded cost for long-term debt is 5.11 percent for the test year.

25. The rate of return on common equity of 10.30 percent as established in WPSC's last rate case, docket 6690-UR-120, remains in place as it was not an issue addressed in this proceeding.

26. A reasonable average cost for preferred stock is 6.08 percent for the test year.

27. A reasonable weighted average composite cost of capital is 7.63 percent.

28. Accordingly, the average utility capitalization ratios, annual cost rates, and the composite cost of capital rate considered reasonable and just for setting rates for the test year are as follows:

	Amount (000s)	Percent	Annual Cost Rate	Weighted Cost
Utility Common Equity	\$1,053,553	51.61%	10.30%	5.32%
Preferred Stock	51,188	2.51%	6.08%	0.15%
Long-term Debt	855,975	41.93%	5.11%	2.14%
Short-term Debt	80,671	3.95%	0.43%	0.02%
Total Utility Capital	\$2,041,387	100.00%		7.63%

29. It is reasonable that the final 2012 Wisconsin electric retail fuel cost refund, the 2012 Wisconsin retail electric fuel cost refund true-up, and the actual 2013 deferred incremental pension and benefits costs be filed with the Commission no later than March 1, 2013, at which time a reconciliation be made between the estimated and actual amounts.

30. It is reasonable that the RSM formulas are revised as shown in the settlement proposal (Appendix B).

31. It is reasonable that the RSM authorizations be extended until they are taken up in a future rate proceeding.

32. It is reasonable that the scope of any future rate proceeding will be determined by the Commission, and the issues and alternatives for process listed in the rate settlement are too numerous to be considered in a reopened rate proceeding.

Conclusions of Law

The Commission concludes that it has jurisdiction under Wis. Stat. §§ 1.12, 196.02, 196.025, 196.03, 196.19, 196.20, 196.21, 196.37, and 196.395 to enter a Final Decision authorizing WPSC to maintain its existing Wisconsin retail electric rates, to decrease retail natural gas distribution rates and to place into effect the rates set forth in Attachment B of the rate settlement agreement as shown in Appendix B. Such rates are reasonable and appropriate as a matter of law.

Opinion

WPSC and its Business

WPSC is a public utility, as defined in Wis. Stat. § 196.01(5), operating as an electric and natural gas utility in Wisconsin. Its territory extends across the northeastern and northern portions of the state. WPSC is a wholly-owned subsidiary of Integrys Energy Group, Inc.

WPSC provides service to retail electric and natural gas customers. WPSC also sells electricity at wholesale rates to several utilities for resale. The Federal Energy Regulatory Commission regulates these wholesale sales, and they are not affected by these proceedings.

RENEW Motion to Strike

RENEW filed a motion to strike WPSC's comments filed in response to the Commission's formal request for comments, arguing that portions of WPSC's comments were outside the scope of the request for comments and alleging that portions of the comments consisted of "unsubstantiated factual assertions and fails to cite evidence or facts in the record or to file any testimony or affidavits supporting those assertions." (RENEW Motion, at 1.) The Commission denies the motion. RENEW has not demonstrated it is prejudiced by the comments as it had a full opportunity to respond. Further, the Commission finds that WPSC's comments and RENEW's response thereto, assist the Commission's consideration of the proposal.

Commissioner Callisto dissents.

Revenue Requirements

WPSC met with Commission staff and intervenors to discuss a rate case settlement. As a result of the discussions and Commission staff's audit, a rate case settlement proposal was filed by WPSC (Appendix B). Clean Wisconsin and RENEW argued that net metering regulatory treatment

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should be changed, and recommended a traditional rate proceeding. The Commission denies that request, concluding the benefits to ratepayers advanced by the settlement outweigh the relatively small costs associated with the net metering dispute which can be addressed in a future rate case proceeding.

The Wisconsin Industrial Energy Group, Inc. (WIEG), and the Citizens Utility Board (CUB) supported the settlement proposal. WIEG noted that WPSC's agreement to work with WIEG and others to develop a real-time pricing tariff as detailed in paragraph 13.j was key to its support for this settlement proposal.

The Commission approves the settlement proposal, as updated for electric fuel costs (\$-0.7 million), electric transmission costs (\$0.3 million) electric pensions and benefits (\$8.3 million), electric utility interest costs (\$1.4 million), and natural gas pensions and benefits (\$2.4 million). This is with the understanding that the scope of any future rate proceeding will be determined by the Commission regarding the options of a traditional rate proceeding, reopener docket or other type of proceeding. The possible issues and recommended process listed in the rate settlement proposal are too numerous to be considered in a reopened rate proceeding.

The amortization schedule shown on Appendix B, Attachment E, outlines all deferrals and amortizations used in the calculation of revenue requirements. No carrying costs shall be accrued on the deferrals associated with pensions and benefits or interest rate changes. The deferrals for these items are capped at the levels identified in this Final Decision.

The final, total amortization and deferred amounts will not be known until 2013 because WPSC's actual 2012 Wisconsin retail electric fuel refund amount will not be known until that time. Accordingly, WPSC shall make a compliance filing no later than March 1, 2013, that

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provides the monthly amortization and deferred amounts related to electric fuel, and incremental pension and benefits for 2013, shown in Section 13.h. of the rate settlement proposal, along with the calculations of the amounts in sufficient detail for Commission staff to audit them.

The Commission previously determined, in docket 6690-UR-120, a 10.30 percent return on utility common equity to be reasonable. As rate of return on common equity was not an issue in this proceeding, the Commission determines that this return shall remain in place until addressed in a subsequent rate case proceeding.

Conservation

The authorized level of expensed conservation costs recoverable in rates for the test year is \$19,778,728 for electric utility operations and \$7,056,977 for natural gas operations. The level of electric utility operations consists of the conservation budget of \$17,669,792, and an escrow adjustment of \$2,108,936, which represents the test-year amortization of the projected over-spent escrow balance at December 31, 2012, over two years. The level for natural gas operations consists of the conservation budget of \$8,388,602 and an escrow adjustment of (\$1,331,625), which represents the test-year amortization of the projected underspent escrow balance at December 31, 2012, over two years.

The conservation escrow budgets include required 2005 Wisconsin Act 141 contributions to statewide energy efficiency and renewable resource programs. They also include dollars for customer service conservation activities and services, including the customer service conservation portion of the Farm Rewiring Program. Consistent with the Commission's direction in docket 5-BU-102, WPSC's settlement includes a separate escrow for the portions of the Farm Rewiring Program that do not meet the Commission's definition of customer service conservation. The

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authorized level of non-customer service conservation Farm Rewiring expenses costs recoverable in rates for the test year is \$1,000,000.

Fuel Cost Update

On October 26, 2012, WPSC filed a data response updating the 2013 test-year NYMEX spot coal and natural gas used for electric generation purposes and electricity prices by using the October 15, 2012, NYMEX prices, removing the impact of the Cross-State Air Pollution Rule and updating for other items listed in WPSC's settlement proposal. The impact of these changes is a reduction of approximately \$3,232,000 from the Commission staff audit adjusted estimate of total monitored fuel costs.

It is reasonable to monitor WPSC's fuel costs using a plus or minus 2 percent bandwidth, as provided in Wis. Admin. Code § PSC 116.06(3). The monitored fuel cost for 2013 is presented in Appendix B, Attachment G.

Because the intent of the Commission is to offset the electric retail revenue deficiency against the fuel refund, and several of the actual amounts will not be known for several months, the final 2012 fuel refund amount is to be filed with the Commission no later than March 1, 2013, at which time a reconciliation will be made between what had been estimated and the actual fuel refund amounts.

In its comments on the rate settlement proposal, WPSC identified changes to Section 13.h. that are necessary to ensure the proper accounting for the amortization of the 2012 Wisconsin retail electric fuel refund amount and the deferral of the specified adjustments to the electric revenue requirements. The proper accounting requires: (1) amortization of WPSC's actual 2012 Wisconsin retail electric fuel refund amount, and (2) deferral of the difference

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between WPSC's actual 2012 Wisconsin retail electric fuel refund amount and WPSC's 2013 Wisconsin retail electric revenue deficiency of \$28,523,664, as updated and re-calculated pursuant to the adjustments specified in Section 13.h. The rate result is the same whether the originally proposed accounting or the modified accounting is used. The Commission finds that the proposed modifications to Section 13.h. are required and reasonable.

Revenue Decoupling (Revenue Stabilization Mechanism)

WPSC's current gas and electric RSMs were approved on a pilot basis in the *Final Decision* issued on December 30, 2008, in docket 6690-UR-119. This approval was for a four-year period for the calendar years 2009 through 2012. The proposed settlement agreement terminates the existing RSMs on December 31, 2012, in accordance with that approval "except for the reconciliation and related surcharges/credits associated with the operation of [these] RSMs in 2012."³ The proposed settlement agreement includes the implementation of new gas and electric RSMs based on "Total Rate Case Margin." The Commission approves the implementation of these new gas and electric RSMs. The settlement agreement further proposes that these new RSMs would be "in effect until the effective date of a Final Decision issued by the Commission on an application for a general base rate case filed after January 1, 2013."⁴ The Commission will determine the scope of any future rate proceedings and whether the new RSMs will be subject to review in such proceedings.

Gas Rates

The overall decrease in gas rates for 2013 is \$3.4 million. This decrease includes the \$2.9 million annual gas RSM rate decrease adjustments for the over-recovery of the 2011 annual

³ Rate Case Settlement Proposal for 2013, Paragraph 13.o.

⁴ Rate Case Settlement Proposal for 2013, Paragraph 13.r.

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margin revenue. This adjustment will be in effect for one year, beginning January 1, 2013, and ending December 31, 2013. Additional rate adjustments reduce gas acquisition charges and daily balancing charges by approximately \$130,649 and \$127,157, respectively. It is appropriate to reduce the charges designed to recover costs associated with return on stored gas because the stored gas balance is expected to decrease \$4,670,000 from the authorized level in docket 6690-UR-120. It is also reasonable to reduce telemetering charges because the cost of a dedicated telephone line is expected to decrease by 33 percent. Volumetric distribution rates were adjusted for the remaining decrease.

Order

1. The authorized rate decreases and tariff provisions that expand the terms of service shall take effect January 1, 2013. WPSC shall file these rate decreases and tariff provisions with the Commission and place them in all offices and WPSC pay stations by that date.

2. By January 1, 2013, WPSC shall revise its existing rates and tariff provisions for natural gas utility service, revise its existing tariff provisions for electric service, substituting the rate decreases and tariff provisions that expand the terms of service, as shown in Appendix B of the rate settlement agreement. These changes shall be in effect until the Commission issues an order establishing new rates and tariff provisions.

3. WPSC shall prepare bill inserts that properly identify the rates authorized in this Final Decision. WPSC shall distribute the inserts to customers with the first billing containing these rates. WPSC shall file copies of these inserts with the Commission before it distributes the inserts to customers.

4. The fuel costs in Appendix B, Attachment G, shall be used for monthly monitoring of WPSC's 2013 fuel costs, pursuant to Wis. Admin. Code ch. PSC 116.

5. Fuel costs for 2013 shall be monitored using an annual bandwidth of plus or minus 2 percent.

6. WPSC shall file on or before March 1, 2013, the amortization amounts associated with the actual 2012 Wisconsin retail electric fuel rule refund and the monthly deferred amounts associated with the difference between the actual 2012 Wisconsin retail electric fuel rule refund and the 2013 Wisconsin retail electric revenue deficiency. WPSC shall also file with the Commission by that date the actual 2013 deferred incremental pension and benefits costs. WPSC's filing shall include its calculations of these amounts in sufficient detail to allow staff to audit the information.

7. WPSC shall work with Integrys Energy Services, Inc., Wausau Paper Company, WIEG and the Wisconsin Paper Council to develop and file for Commission approval a new Real Time Pricing tariff. This tariff will have many of the same features as the current We Energies Real Time Pricing tariff, such as applying only to new incremental load, and having a \$0.50/MWH adder to the MISO LMP and associated fees and adders as compared to the current WPSC Real Time Pricing tariff that has a \$10/MWH adder to the MISO LMP and associated fees and adders. WPSC shall use reasonable efforts to file the new Real Time Pricing tariff with the Commission on or within 60 days of the date of mailing of this Final Decision.

8. The scope of any future rate proceeding shall be determined by the Commission, and the issues and alternatives for process listed in the rate settlement are too numerous to be considered in a reopened rate proceeding.

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9. Jurisdiction is retained.

Concurrence

Commissioner Callisto concurs and writes separately (attached).

Dated at Madison, Wisconsin, this 6th day of December, 2012.

By the Commission:



Sandra J. Paske
Secretary to the Commission

SJP:CAW:jlt:DL: 00606338

See attached Notice of Rights

PUBLIC SERVICE COMMISSION OF WISCONSIN
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**NOTICE OF RIGHTS FOR REHEARING OR JUDICIAL REVIEW, THE
TIMES ALLOWED FOR EACH, AND THE IDENTIFICATION OF THE
PARTY TO BE NAMED AS RESPONDENT**

The following notice is served on you as part of the Commission's written decision. 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.

PETITION FOR REHEARING

If this decision is an order following a contested case proceeding as defined in Wis. Stat. § 227.01(3), a person aggrieved by the decision has a right to petition the Commission for rehearing within 20 days of mailing of this decision, as provided in Wis. Stat. § 227.49. The mailing 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 petition for rehearing must be filed with the Public Service Commission of Wisconsin and served on the parties. An appeal of this decision may also be taken directly to circuit court through the filing of a petition for judicial review. It is not necessary to first petition for rehearing.

PETITION FOR JUDICIAL REVIEW

A person aggrieved by this decision has a right to petition for judicial review as provided in Wis. Stat. § 227.53. In a contested case, the petition must be filed in circuit court and served upon the Public Service Commission of Wisconsin within 30 days of mailing of this decision if there has been no petition for rehearing. If a timely petition for rehearing has been filed, the petition for judicial review must be filed within 30 days of mailing of the order finally disposing of the petition for rehearing, or within 30 days after the final disposition of the petition for rehearing by operation of law pursuant to Wis. Stat. § 227.49(5), whichever is sooner. If an *untimely* petition for rehearing is filed, the 30-day period to petition for judicial review commences the date the Commission mailed its original decision.⁵ The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

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

Revised: December 17, 2008

⁵ See *State v. Currier*, 2006 WI App 12, 288 Wis. 2d 693, 709 N.W.2d 520.

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CONCURRING OPINION OF COMMISSIONER ERIC CALLISTO

I join my colleagues in the *Final Decision*. I write separately to clarify my position on two issues.

The first is my belief that Wisconsin Public Service Corporation's revenue stabilization mechanism pilot needs to be explored the next time the Commission takes up the utility's rates. The pilot will have been in existence for five years at that point, and lessons learned in Wisconsin and around the country should be examined before the Commission makes any determination to allow the mechanism to continue. While I imagine it is theoretically possible to have that mechanism explored in a limited reopener, it will be challenging. Regardless of whether the Commission decides to allow a limited reopener or a full rate case for the 2014 test year, we should require a full evaluation of the revenue stabilization mechanism before we decide to allow it to continue beyond the end of 2013.

Second, the *Final Decision* makes reference to an agreement between the settling parties to work on a modified Real Time Pricing Tariff. While I agree that the development of that tariff proposal is not an unreasonable part of the settlement the Commission is approving, I am not deciding in this case whether I agree with any such proposal. As was agreed to in the discussion of record, that tariff proposal should come back to the full Commission for review.