We Energies
231 W. Michigan Street
Milwaukee, WI 53203

www.we-energies.com

March 28, 2019

Steffany Powell Coker
Public Service Commission of Wisconsin
P.O. Box 7854
Madison, WI 53707-7854

Re.: **5-UR-109 -- Application of Wisconsin Electric Power Company and Wisconsin Gas LLC for Authority to Adjust Electric, Steam, and Natural Gas Rates**

Dear Ms. Powell Coker:

With the constructive support of this Commission, Wisconsin Electric Power Company and Wisconsin Gas LLC ("Applicants") have kept base rates flat since 2015. Applicants have done so by managing day-to-day costs, applying savings generated from Wisconsin Energy Corporation's 2015 acquisition of Integrys Energy Group, and taking advantage of opportunities provided by federal tax law reform. As directed by the Commission's Order in Docket 5-UR-108, Applicants are filing for approval to adjust electric, natural gas, and steam rates effective January 1, 2020.

Absent three drivers outside of its control, Wisconsin Electric would have been able to keep its electric base rates frozen through 2021. These drivers account for Wisconsin Electric's 2020 revenue deficiency.

The first driver is the difference between the actual level of ATC transmission expenses that Wisconsin Electric is required to pay and the amount which the Commission capped at 2010 levels of recovery in 2013. Wisconsin Electric is the only utility in Wisconsin that is not recovering its actual ATC expenses in current rates.

The second driver is the revenue the Commission assumed Wisconsin Electric would receive annually for continuing to operate the Presque Isle Power Plant ("PIPP") starting in 2015 under a FERC-approved System Support Resource ("SSR") Agreement. The Commission applied those forecasted revenues to largely eliminate Wisconsin's Electric deficiency in its test year 2015 rate case. However, as explained below, this revenue was not received after January 2015, resulting in a significant revenue deficiency at Wisconsin Electric ever since.

The third driver of Wisconsin Electric's revenue deficiency is the annual price adjustment included in the carbon-free Point Beach purchased power agreement, which was approved by the Commission in Docket 6630-EI-113.

For the first two drivers, the Commission authorized Wisconsin Electric to escrow costs or savings for later recovery or refund. These topics were covered extensively in Wisconsin Electric's last rate proceeding, Docket 05-UR-108.

Based on these three drivers, Wisconsin Electric's total costs to provide electric service to customers in 2020 will be approximately $223 million higher than current rates. In the interest of mitigating the impact of this increase on customers, Wisconsin Electric seeks Commission approval to apply $94 million of unprotected tax benefits for the benefit of customers in 2020 and another $17 million of unprotected tax benefits in 2021. Approval of this proposal, along with some additional anticipated adjustments, would allow us to target an effective rate increase of 2.9% in each year (with fuel in 2020, without fuel in 2021).

Further, as an additional protection for customers, and based on the success of the existing earnings sharing mechanisms, Wisconsin Electric and Wisconsin Gas are proposing to maintain such mechanisms until at least their next rate reviews, revised to adopt the approach the Commission approved for Wisconsin Power & Light in Docket 6680-UR-121.

The other drivers providing upward pressure on rates and the offsetting drivers are summarized in the testimony of our overview witness, Mr. Scott Lauber, as well as in the testimony of Mr. Joe Zgonc. Ms. Kim Keller discusses Wisconsin Electric's fuel filing, made as part of this proceeding pursuant to the Wisconsin fuel rules.

Wisconsin Electric's Share of ATC Transmission Costs

In 2013, the Commission capped the company's annual recovery of transmission expenses paid to ATC at approximately $250 million, the level of those transmission costs in 2010. All parties to the docket agreed to this cap to benefit customers in the wake of the Great Recession, with the difference to be escrowed for future recovery from customers.

Since 2013, ATC has continued to invest in projects that have greatly improved the adequacy and reliability of the electric transmission system. In compliance with this Commission's 2013 Order, the company escrowed the actual amount of its ATC costs above the $250 million cap each year. That balance grew to approximately $204 million by the end of 2017.

In Docket 5-UR-108, the Commission approved Wisconsin Electric's proposal to stop the growth in this escrow balance by applying accelerated tax benefits. By combining these accelerated tax benefits with the tax reform benefits the Commission approved in Docket 5-AF-101, the results of Wisconsin Electric's earnings sharing mechanism, and fuel over-collection amounts, we have been able to reduce this balance and are happy to report that the escrow balance will be completely eliminated by the end of 2019.

While the Commission's previous orders have eliminated the ATC escrow balance, a gap still exists in 2020, which represents the difference between the annual ATC costs recovered from customers (currently capped at $250 million) and the forecasted 2020 ATC expenses allocated to and required to be paid by Wisconsin Electric.

Going forward, Wisconsin Electric seeks to have its rates reflect its actual transmission expenses, over which it has little, if any, control. Wisconsin Electric's forecasted transmission cost in 2020 is $332 million, an increase of $82 million over the artificially low $250 million cap on transmission costs that the Commission previously authorized to be reflected in the Company's current rates.

MISO System Support Resource Payments

In Wisconsin Electric's 2015 rate case, the Commission approved the creation of a regulatory asset for MISO-ordered SSR payments that the Commission expected Wisconsin Electric would receive starting in 2015 for its continued operation of PIPP in the Upper Peninsula of Michigan. The Commission expected these payments would give Wisconsin Electric approximately $91 million in annual revenue towards its authorized Wisconsin retail revenue requirement. The Commission applied the entire amount of the expected 2015 SSR payments to largely eliminate Wisconsin Electric's 2015 revenue deficiency after Staff's audit, and required Wisconsin Electric to escrow the difference between the estimate and the actual amount of revenue the company received for future refund to or recovery from customers. However, except for one month in 2015, these revenues were never received after the SSR Agreement was terminated in February 2015. Since then, Wisconsin Electric has operated with a built-in structural revenue deficiency of $91 million per year in its authorized rates.

These expected-but-not-received payments were partially offset by revenues received from iron ore mines in the Upper Peninsula of Michigan under a special contract. These revenues, referred to as the "mines margin," are not reflected in Wisconsin Electric's current rates. After the mines returned to Wisconsin Electric service as full-requirements customers in early 2015, the company requested—and the Commission authorized in Docket 6630-GF-137—escrowing the "mines margin" to offset the SSR escrow balance.

In its Docket 5-UR-108 order, the Commission approved Wisconsin Electric's proposal to apply accelerated tax benefits to freeze the continued growth of the SSR escrow balance, indicating that it would address the disposition of the regulatory asset in Wisconsin Electric's test year 2020 rate case. The Commission also reduced the carrying cost on the balance to the company's long-term debt rate. As of December 31, 2019, this escrow balance is expected to be $186 million. In order to finally address these costs of service due and owing the company, Wisconsin Electric proposes to increase its rates by approximately $122 million in the test year to recover the remaining escrow balance over six years and to align the company's rates with its authorized revenue requirement going forward.

Point Beach Power Purchase Agreement

The Commission approved Wisconsin Electric's sale of the Point Beach nuclear plant to FPL Energy Point Beach, LLC ("FPL") in September 2007 in Docket 6630-EI-113. As a result of that transaction, Wisconsin Electric received nearly $1 billion from FPL, which was used to reduce customers' rates. As part of Point Beach's sale the Commission approved a power purchase agreement under which Wisconsin Electric agreed to purchase the output of the plant for the life of its Nuclear Regulatory Commission license. The power purchase agreement contains annual price increases, which are reflected in Wisconsin Electric's fuel costs. For 2020, the price increase is approximately $27 million.

Aside from seeking recovery of these structural deficiencies, Wisconsin Electric will continue to hold its costs flat while continuing to invest in Commission-approved capital projects to maintain system reliability and transition to a less carbon-intensive energy future.

Applicants also seek targeted increases of $14.7 million (or 3.9%) for Wisconsin Electric-Gas Operations; $11.0 million (or 1.8%) for Wisconsin Gas; and $1.0 million (or 4.5%) for Wisconsin Electric's downtown Milwaukee steam utility.

Accompanying this Application is the following direct testimony:

- Mr. Scott Lauber gives an overview of Applicants' request in this case.

- Mr. Joseph Zgonc presents Applicants' forecasted income statements and balance sheets along with the test year revenue requirement for each utility. Mr. Zgonc also discusses Applicants' capital investments since their last rate case and their requested changes to their capital structure.

- Mr. Joel Gaughan supports the 2020 electric sales forecast for Wisconsin Electric.

- Ms. Kim Keller presents Wisconsin Electric's fuel cost plan for 2020.

- Mr. Jared Peccarelli supports the 2020 gas sales forecast for Wisconsin Gas and Wisconsin Electric – Gas Operations.

- Ms. Ann Bulkley of Concentric Energy Advisors discusses Applicants' requested changes to return on equity and capital structure.

- Mr. Todd Shipman of Concentric Energy Advisors addresses the effects of regulation on utility credit ratings and, ultimately, borrowing costs.

- Mr. Daniel Krueger discusses the operational history of the Pleasant Prairie Power Plant ("Pleasant Prairie") and PIPP and the prudent decisions to retire those plants.

- Mr. Richard Stasik presents the savings customers will realize as a result of retiring Pleasant Prairie and PIPP and Wisconsin Electric's proposed accounting treatment of those retired assets.

- Mr. Jim Schubilske presents Wisconsin Electric's proposed recovery of the SSR escrow balance and full recovery of its transmission costs.

- Mr. David Hughes discusses the effects on rates of the federal corporate tax reform bill implemented on January 1, 2018.

- Ms. Mary Wolter discusses rate recovery of the costs of the service agreements between Bluewater Natural Gas Storage LLC and Wisconsin Gas and Wisconsin Electric – Gas Operations that were previously approved by the Commission.

The attached testimony and exhibits demonstrate that Applicants' requested rate increases will result in just and reasonable rates while we continue to provide safe, reliable and environmentally responsible service.

Finally, we will be filing separate cost of service and rate design testimony for Wisconsin Electric and Wisconsin Gas on or before May 1, 2019.

Sincerely,

Robert M. Garvin
Executive Vice President
External Affairs