

SERVICE DATE
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Public Service Commission of Wisconsin
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PUBLIC SERVICE COMMISSION OF WISCONSIN

Wisconsin Electric Power Company 2019 Fuel Cost Plan

6630-ER-103

FINAL DECISION

This is the Final Decision in the application of Wisconsin Electric Power Company (WEPCO) for approval of its 2019 Fuel Cost Plan and for authority to increase Wisconsin retail electric rates in accordance with its 2019 Fuel Cost Plan.

WEPCO's 2019 Fuel Cost Plan is approved subject to conditions and modifications in this Final Decision. The total Wisconsin retail electric revenue increase from the 2018 Authorized Fuel Cost Plan (docket 6630-FR-107) is \$27.2 million or 1.0 percent based on current retail revenue.

Introduction

On July 3, 2018, WEPCO filed an application under Wis. Stat. § 196.20(4) and Wis. Admin. Code § PSC 116.03 for its 2019 Fuel Cost Plan for generating electricity. WEPCO requested fuel cost recovery of \$29.77 per megawatt-hour (MWh), which represents an electric revenue increase of \$30,304,000 on a retail basis, or 1.1 percent, from the amount the Commission authorized in the Final Decision in docket 6630-FR-107, relating to WEPCO's 2018 Fuel Cost Plan.

The Commission held technical and public hearings on October 3, 2018. The Commission considered this matter at its open meeting of November 8, 2018. The parties, for purposes of review under Wis. Stat. §§ 227.47 and 227.53, are listed in Appendix A.

Findings of Fact

1. WEPCO is an investor-owned electric and natural gas public utility as defined in Wis. Stat. § 196.01(5)(a), providing electric service to eastern Wisconsin.
2. It is reasonable to forecast an increase in WEPCO's 2019 monitored fuel costs by \$27,205,256 on a retail basis.
3. It is reasonable to set WEPCO's 2019 Fuel Cost Plan level at \$776,811,569, or \$29.73 per MWh, as shown in Appendix C.
4. It is reasonable to establish an annual fuel cost tolerance bandwidth of plus or minus 2.0 percent for monitored fuel costs.
5. It is reasonable to reflect the revenue requirement impact of Commission staff's fuel cost update containing New York Mercantile Exchange (NYMEX) futures settlement prices as of October 15, 2018, for natural gas, the October 2018 EIA Short-Term Energy Outlook for 2019 for diesel fuel, Argus spot coal futures as of October 12, 2018, for Powder River Basin coal and Coal Desk spot futures for Pittsburgh #8 as of October 12, 2018, to forecast WEPCO's 2019 monitored fuel costs.
6. It is reasonable to incorporate \$5 per MWh for the off-peak bid adders for Port Washington and the Whitewater Purchased Power Agreement in the PROMOD model.
7. It is reasonable to exclude WEPCO's proposed off-peak bid adder for the Fox Energy Center in the PROMOD model.
8. It is reasonable to incorporate all other Commission staff uncontested adjustments to WEPCO's forecasted 2019 monitored fuel costs.
9. It is reasonable to allocate the increase in fuel costs approved by the Commission to various customer classes based on energy usage.

10. It is reasonable to approve rate changes for electric service for the 2019 Fuel Cost Plan year as shown in Appendix B.

11. It is reasonable to reflect the reduction of \$10.8 million in fuel costs for the Pleasant Prairie Power Plant (P4) for the monitored fuel range of plus or minus 2.0 percent.

Conclusions of Law

1. WEPCO is a public utility as defined in Wis. Stat. § 196.01(5)(a).
2. The Commission has authority under Wis. Stat. §§ 196.02, 196.03, 196.20, 196.37, 196.39, 196.395, and Wis. Admin. Code ch. 116 to approve WEPCO's 2019 Fuel Cost Plan and to place in effect the rates and rules for electric utility service set forth in Appendix B. Such rates and rules for electric service in Appendix B are reasonable and appropriate as a matter of law.

Opinion

Electric Fuel Costs

Pursuant to Wis. Admin. Code § PSC. 116.03, each of the five major, investor-owned Wisconsin electric utilities must file a proposed fuel cost plan for each calendar year, known as the plan year, as part of a general rate case proceeding, or if the utility does not file a general rate case, as a proceeding limited in scope to fuel cost. This fuel cost plan must include a calculation of certain fuel costs as described in Wis. Admin. Code § PSC 116.02, as well as the other information required by Wis. Admin. Code § PSC 116.03(2). After a hearing, the Commission approves the utility's fuel cost plan and establishes the utility's rates in accordance with the approved fuel cost plan. Wis. Admin. Code § PSC 116.03(3).

The Commission finds that a reasonable estimate of WEPCO's 2019 Fuel Cost Plan monitored fuel costs is \$776,811,569, which reflects the costs of generation and purchased

energy, minus revenues from opportunity sales of energy and capacity. The 2019 monitored fuel costs divided by the 2019 estimate of native energy requirements of 26,128,099 MWh results in an average net monitored fuel cost per MWh of \$29.73. Appendix C shows the monthly fuel costs to be used for monitoring purposes.

It is reasonable to monitor WEPCO's fuel costs using a plus or minus 2.0 percent bandwidth, as provided in Wis. Admin. Code § PSC 116.06(3). It is reasonable to reflect the reduction of \$10.8 million for P4 for the monitored fuel range of plus or minus 2.0 percent.

Off-Peak Bid Adders for Port Washington Units 1 and 2 (Port) and the Whitewater Purchase Power Agreement

WEPCO proposed using an off-peak bid adder of \$9 per MWh for Port and Whitewater in its PROMOD model. In docket 6630-FR-107, the Commission authorized an off-peak bid adder of \$5 per MWh. Commission staff proposed a level of \$5 per MWh, consistent with the Commission's decision in the 2018 Fuel Plan (docket 6630-FR-107). Commission staff cited the retirement of P4 as a factor in determining the proper bid adder for Port and Whitewater. Commission staff also noted that, for most months of 2019, the dispatch prices for Port, Whitewater, and Fox Energy Center were all lower than the Wisconsin Energy Corporation (WEC)-owned coal units. (Direct-PSC-Ritsema-4c:7-11.) WEPCO asserted that P4's retirement does not have any impact on the generation of other generators under its control, stating that the Midcontinent Independent System Operator, Inc. (MISO) footprint as a whole would absorb the generation shortfall associated with P4's retirement. WEPCO cited historical data as its basis for employing a \$9 per MWh off-peak bid adder for Port and Whitewater. (Rebuttal-WEPCO-Keller-12p:1-13.) Commission staff noted that P4 was operating in 2015-2017 and was forecasted to operate in the 2018 Fuel Cost Plan approved by the Commission last year.

Commission staff noted that Locational Marginal Prices (LMP) consist of a Marginal Energy Component (MEC), a Marginal Congestion Component (MCC), and a Marginal Loss Component (MLC). The MEC is based on the dispatch done by MISO. The MCC is influenced by the supply and demand for electricity in a local vicinity. Commission staff cited the example of wind generation from the west coming into Wisconsin. Due to the fact that transmission facilities are not able to keep up with the wind generation, the MCC drops, due to the excess of supply versus demand for electricity. This, in turn, lowers LMPs. (Tr. 26:16-27:8.)

Commission staff stated its belief that such imbalances would not extend to the eastern part of the MISO footprint. (Tr. 35:20-36:16.) The retirement of P4 leaves a large gap in supply of electricity in the local vicinity, resulting in opportunities for more generation from other nearby generators. (Surrebuttal-PSC-Ritsema-3r:14-4r:10.)

Based on Commission staff's testimony and the above discussion, the Commission finds it reasonable to reflect the Commission staff recommended level of \$5 per MWh for the off-peak bid adders for Port and Whitewater in the PROMOD model for purposes of this proceeding.

Off-Peak Bid Adder for Fox Energy Center

WEPCO stated that the off-peak bid adder for Fox Energy Center (Fox) should be the same value authorized in the 2018 Fuel Cost Plan (\$7/MWh). Commission staff testified that no off-peak bid adder should be applied to Fox, stating that Wisconsin Public Service Corporation (WPSC) requested and received authorization to construct a gas lateral to allow Guardian Pipeline to serve Fox and to allow Fox to operate as a baseload unit since MISO was calling on Fox much more frequently due to the price of delivered natural gas. WEPCO argued that Fox was already operating as a baseload unit and the gas lateral would provide more firm gas deliveries to make it easier for Fox to continue to serve as a baseload generator. Commission

staff questioned the need for the new gas lateral if the purpose of the natural gas lateral was not to increase Fox's capacity factor beyond recent history.

Based on Commission staff's testimony and the above discussion, the Commission finds it reasonable to remove the off-peak bid adder for Fox in the PROMOD model for purposes of this proceeding.

Starting Point for the Fuel Monitoring Ranges

In direct testimony, WEPCO offered to forego the monitored fuel costs associated with P4 for purposes of the rates to be charged to its customers for 2019. (Direct-WEPCO-Keller-18pr:11-19pr:7.) The amount of the decrease is approximately \$10.8 million. However, this offer raised a question as to the proper starting point for the monitoring ranges for fuel costs for 2019. Commission staff testified that the starting point should be the "expected value" for monitored fuel which would have included the P4 retirement cost. This would mean that the 2.0 percent range would be from \$751 million to \$781 million. WEPCO argued that Commission precedent would indicate that the adjustment to rates, which removes the \$10.8 million, should be used as the starting point for the 2.0 percent range, making the range \$740 million to \$770 million. (Sur-surrebuttal-WEPCO-Keller-3p:5-4p:7.) Commission staff's position would mean that WEPCO could not begin collecting a surcharge until its fuel costs exceeded \$781 million and must refund any fuel costs below \$751 million. WEPCO's position would mean that it would be eligible for a surcharge once its fuel costs exceed \$770 million and would not be required to issue refunds until its fuel costs dropped below \$740 million.

Based on this discussion, the Commission finds it reasonable to use the fuel costs with the P4 retirement costs removed as the starting point since that is the level of monitored fuel

costs being included in rates for 2019. This is consistent with past Commission precedent of using the amount collected in rates for the starting point for the plus or minus 2.0 percent range.

Uncontested Fuel Adjustments and Delayed Fuel Cost Exhibit

The Commission finds it reasonable to accept Commission staff's uncontested fuel adjustments to WEPCO's forecasted 2019 monitored fuel costs, and incorporate updated NYMEX futures settlement prices as of October 15, 2018, for natural gas, the October 2018 EIA Short-Term Energy Outlook forecast for 2019 for diesel fuel, Argus Powder River Basin spot coal futures as of October 12, 2018, and Coal Desk Pittsburgh #8 spot coal as of October 12, 2018. Commission staff proposed the following uncontested adjustments:

- A \$1,403,738 increase to reflect correction of heat rates for South Oak Creek Units 5 and 6;
- A \$2,679 decrease to reflect the secondary impact of the adjustments to correct the over-estimate of Wisconsin River Power Corporation hydro generation by WPSC;
- An \$886,684 decrease to reflect inclusion of the Rothschild Pilot Project to reduce uneconomic generation at the Rothschild Biomass Plant;
- A \$3,514,443 increase to reflect the costs of Site Bulk Material Handling coal dust mitigation;
- A \$912,363 increase to reflect an update to the Financial Transmission Rights/Auction Revenue Rights costs for the 2018-2019 auction;
- A \$13,648 decrease to reflect locational marginal price (LMP) updates; and
- A \$537,786 increase to reflect a new agreed upon method to apply to Risk Management values.

In addition, neither Commission staff nor the parties are contesting the following adjustments:

- A \$4,698,026 decrease to reflect a new rail contract;
- A \$3,487,146 increase to reflect an update to the rail fuel surcharge;

- A \$3,097,344 increase to reflect an update in spot coal pricing;
- A \$1,786,440 decrease to reflect updated coal inventories with September 2018 actuals;
- A \$16,251,871 increase to reflect natural gas futures for 2019 from the October 15, 2018, NYMEX pricing and the October 2018 EIA Short-term Energy Outlook for 2019 for diesel fuel; and
- A \$5,490,450 increase to reflect a correction to the estimated load transfer from WEPCO to Upper Michigan Energy Resources Corp. (UMERC) and associated costs. (Ex.-WEPCO-Keller-4)

It is reasonable to incorporate all other Commission staff and WEPCO uncontested adjustments to WEPCO's forecasted 2019 monitored fuel costs.

Revenue Allocation and Rate Design

Both WEPCO and Commission staff proposed that the increase in fuel costs from the 2018 Fuel Cost Plan be allocated to the rate classes based on energy usage, which is the typical allocation used for changes in fuel costs. The only difference between WEPCO's proposed revenue allocation and Commission staff's proposal was in the forecasted level of fuel costs for the test year. The Commission finds that the revenue allocation and rate design proposal of WEPCO, as adjusted for final fuel costs, are reasonable. The authorized fuel cost increase, by rate class, are shown in Appendix B.

Order

1. This Final Decision takes effect one day after the date of service.
2. The authorized rate increases shall take effect January 1, 2019. WEPCO shall file these rate increases with the Commission and make them available to the public pursuant to Wis. Stat. § 196.19 and Wis. Admin. Code §§ PSC 113.0506(1)(a) by that date.

3. WEPCO shall revise its existing rates for electric utility service, substituting the rate changes as discussed in this Final Decision section and as shown in Appendix B. These changes shall be in effect until the Commission issues an order establishing new rates and new tariff provisions.

4. WEPCO shall prepare bill messages that properly identify the rates authorized in this Final Decision. WEPCO shall distribute the bill messages to customers no later than the first billing containing these rates. WEPCO shall file copies of these bill messages with the Commission before it distributes the messages to customers.

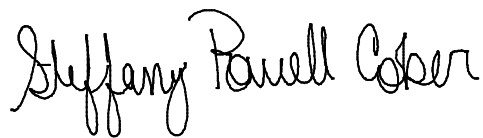
5. The electric fuel costs in Appendix C shall be used for monitoring of WEPCO's 2019 fuel costs pursuant to Wis. Admin. Code § PSC 116.06(3).

6. All 2019 fuel costs shall be monitored using a plus or minus 2.0 percent tolerance band.

7. Jurisdiction is retained.

Dated at Madison, Wisconsin, the 28th day of November, 2018.

By the Commission:



Steffany Powell Coker
Secretary to the Commission

SPC:MAR:jar:jlt:DL: 01657304

Attachments

See attached Notice of Right

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 the date of service of this decision, as provided in Wis. Stat. § 227.49. The date of service is shown on the first page. If there is no date on the first page, the date of service 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 the date of service 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 the date of service 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 serves its original decision.¹ 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: March 27, 2013

¹ See *Currier v. Wisconsin Dep't of Revenue*, 2006 WI App 12, 288 Wis. 2d 693, 709 N.W.2d 520.

APPENDIX A

CONTACT LIST FOR SERVICE BY PARTIES

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Docket 6630-ER-103

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Wisconsin Electric Power Company
Electric Revenue Summary

Rate Class, Sub-Class, and Descriptions		Present Revenue for 2018	Authorized Revenue for 2019	Revenue Change	Percent Change
Rg1	Residential	\$ 1,143,083,604	\$ 1,150,057,366	\$ (9,496,187)	-0.8%
Fg1	Farm	\$ 25,951,319	\$ 26,123,498	\$ (234,456)	-0.9%
Rg2 and Rg3	Residential – Time-of-Use	\$ 40,871,389	\$ 41,124,461	\$ (390,981)	-1.0%
Total Residential		\$ 1,209,906,312	\$ 1,217,305,325	\$ (10,121,624)	-0.8%
Cg1	General Secondary	\$ 235,947,604	\$ 237,518,243	\$ (2,138,743)	-0.9%
Cg2	General Secondary – Demand	\$ 190,995,350	\$ 192,586,932	\$ (1,950,998)	-1.0%
Cg6	General Secondary – Time-of-Use	\$ 16,624,060	\$ 16,727,970	\$ (159,273)	-1.0%
Cg3, Cg3C, Cg3S	General Secondary – Demand/Time-of-Use	\$ 562,747,338	\$ 569,134,070	\$ (6,908,613)	-1.2%
TSSM, TSSU	Transmission Substation Service – Metered and Unmetered	\$ 677,813	\$ 682,547	\$ (6,446)	-1.0%
Total General Service – Secondary		\$ 1,006,992,164	\$ 1,016,649,762	\$ (11,164,073)	-1.1%
Cp1	General Primary – Time-of-Use (Low)	\$ 22,682,410	\$ 22,903,362	\$ (307,665)	-1.4%
Cp1, Cp3, Cp3S, CpFN	General Primary – Time-of-Use (Medium)	\$ 538,476,038	\$ 543,988,227	\$ (7,969,330)	-1.5%
Cp1, CpFN	General Primary – Time-of-Use (High)	\$ 33,202,885	\$ 33,578,167	\$ (597,358)	-1.8%
Total General Service – Primary		\$ 594,361,332	\$ 600,469,756	\$ (8,874,353)	-1.5%
	Area Lighting	\$ 6,571,844	\$ 6,585,201	\$ (36,378)	-0.6%
	Street Lighting Other	\$ 16,696,905	\$ 16,734,175	\$ (101,500)	-0.6%
Cg-6 and St1/St2	General Secondary and Street Lighting – Time-of-Use	\$ 6,166,838	\$ 6,208,849	\$ (92,343)	-1.5%
Total Street Lighting and Other		\$ 29,435,587	\$ 29,528,225	\$ (230,221)	-0.8%
RTMP*	General Primary - Real-Time Market Pricing Rider	\$ 16,318,286	\$ 16,318,286	\$ -	0.0%
Total Contract Service and Real-Time Market Pricing		\$ 16,318,286	\$ 16,318,286	\$ -	0.0%
Total Wisconsin Retail		\$ 2,857,013,682	\$ 2,880,271,354	\$ 23,257,673	0.8%

*Not subject to fuel cost adjustment.

Wisconsin Electric Power Company
Electric Cost of Fuel Adjustment

Rate Class and Descriptions	Authorized Fuel Credit	Units
Rg1	Residential	\$ (0.00128) per kWh
Fg1	Farm	\$ (0.00128) per kWh
Rg2	Residential – Time-of-Use	\$ (0.00128) per kWh
Rg3	Residential – 3-Tier Time-of-Use	\$ (0.00128) per kWh
Cg1	General Secondary	\$ (0.00128) per kWh
Cg2	General Secondary – Demand	\$ (0.00128) per kWh
Cg6	General Secondary – Time-of-Use	\$ (0.00128) per kWh
Cg3	General Secondary – Demand/Time-of-Use	\$ (0.00128) per kWh
Cg3C	General Secondary – Seasonal Curtailable	\$ (0.00128) per kWh
Cg3S	General Secondary – Curtailable	\$ (0.00128) per kWh
TssM	Transmission Substation Service – Metered	\$ (0.00128) per kWh
TssU	Transmission Substation Service – Unmetered	\$ (0.00128) per kWh
Cp1	General Primary – Time-of-Use	\$ (0.00128) per kWh
Cp3	General Primary – Curtailable	\$ (0.00128) per kWh
Cp3S	General Primary – Seasonal Curtailable	\$ (0.00128) per kWh
Cp4	General Primary – Optional Standby	\$ (0.00128) per kWh
CpFN	General Primary – Combined Firm and Non-Firm	\$ (0.00128) per kWh
St1	Optional Time-of-Use Street Lighting	\$ (0.00128) per kWh
St2	Optional 12 Hour Time-of-Use Street Lighting	\$ (0.00128) per kWh
All	Alley Lighting, Customer-Owned	\$ (0.00128) per kWh
G11	Area Lighting	\$ (0.00128) per kWh
LED	LED Standard and Non-Standard Lighting Service	\$ (0.00128) per kWh
Mg1	Municipal Defense Siren (Rate Area One)	\$ (0.00128) per kWh
Ms1	Highway Lighting	\$ (0.00128) per kWh
Ms2	Incandescent Street Lighting	\$ (0.00128) per kWh
Ms3	Sodium and Metal Halide Street Lighting	\$ (0.00128) per kWh
Ms4	Ornamental Street Lighting, Company-Owned	\$ (0.00128) per kWh
TE1	Telecom Equipment – Small Unmetered	\$ (0.00128) per kWh
TE2	Telecom Equipment – Large Unmetered	\$ (0.00128) per kWh
Rate Class and Descriptions		
ERER1	Experimental Renewable Energy Rider 100% Renewable 50% Renewable 25% Renewable	No adjustment for cost of fuel. (1 - 0.50) x (Cost of fuel adjustment factor(s), applicable to rate schedule customer is served under). (1 - 0.25) x (Cost of fuel adjustment factor(s), applicable to rate schedule customer is served under).
ERER2	Experimental Renewable Energy Rider Kilowatt hours in excess of nominated block	Cost of fuel adjustment factor(s), applicable to rate schedule customer is served under.
ERER3	Experimental Renewable Energy Rider 100% Renewable 50% Renewable 25% Renewable	No adjustment for cost of fuel. (1 - 0.50) x (Cost of fuel adjustment factor(s), applicable to rate schedule customer is served under). (1 - 0.25) x (Cost of fuel adjustment factor(s), applicable to rate schedule customer is served under).
ERER4	Experimental Renewable Energy Rider 100% Renewable 50% Renewable 25% Renewable	No adjustment for cost of fuel. (1 - 0.50) x (Cost of fuel adjustment factor(s), applicable to rate schedule customer is served under). (1 - 0.25) x (Cost of fuel adjustment factor(s), applicable to rate schedule customer is served under).
CGS2	Customer Generating Systems – 20 kW or Less	Applicable when a seller to or net purchaser from Company.
CGS6	Customer Renewable Generating Systems – 20 kW or Less	Applicable when a seller to or net purchaser from Company.
CGS7	Customer Non-Renewable Generating Systems – 20 kW or Less	Applicable when a seller to or net purchaser from Company.
CGS8	Customer Renewable Generating System – 20kW or Less	Applicable when a seller to or net purchaser from Company.
CGS-NP	Customer Generating Systems Non-Purchase – Up To 15 MW	Applicable when a net purchaser from the Company.
CGS-NM	Customer Generating Systems – Net Metered Less Than 300 KW	Applicable when a net purchaser from the Company.

Wisconsin Electric Power Company
2019 Fuel Cost Plan
Electric Fuel Costs per Wis. Admin. Code § PSC 116.02

Month	Monitored Fuel Costs	Net MWh Produced	Fuel Cost per Net MWh Produced	Cumulative Cost per MWh
January	\$ 67,585,909	2,299,929	\$ 29.39	\$ 29.39
February	62,077,142	2,074,918	29.92	29.64
March	57,141,949	2,135,368	26.76	28.69
April	52,153,025	1,998,214	26.10	28.08
May	63,118,322	2,081,341	30.33	28.53
June	69,677,245	2,237,429	31.14	28.98
July	86,936,460	2,518,138	34.52	29.89
August	86,140,527	2,454,318	35.10	30.61
September	68,432,535	2,107,905	32.46	30.81
October	53,203,820	2,081,594	25.56	30.31
November	50,791,791	1,969,421	25.79	29.94
December	59,552,844	2,169,524	27.45	29.73
Totals	<u>\$ 776,811,569</u>	<u>26,128,099</u>	<u>\$ 29.73</u>	<u>\$ 29.73</u>