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April 28, 2022

Cru Stublely
Public Service Commission of Wisconsin
P.O. Box 7854
Madison, WI 53707-7854

Re.: 5-UR-110 – Joint Application of Wisconsin Electric Power Company and Wisconsin Gas LLC for Authority to Adjust Electric, Natural Gas, and Steam Rates

Dear Mr. Stublely:

As directed by the Commission’s Order in docket 5-AF-107, the Applicants are now filing for approval to adjust electric, natural gas, and steam rates effective January 1, 2023.

Ongoing capital investment in Wisconsin Electric’s electric generation fleet accounts for a significant portion of the company’s 2023 revenue deficiency. Wisconsin Electric will invest \$1 billion in these efforts between 2020 and 2023. The Commission has already approved a significant amount of this capital, including for the Badger Hollow II solar project, the Paris solar and battery project, and the Weston natural gas RICE project. The company anticipates approval for the rest of the projects that comprise this investment in 2022 or 2023, including the proposed acquisitions of the Darien solar and battery project, the Whitewater natural gas plant, and a portion of the Riverside Energy Center. Beyond these projects, Wisconsin Electric will also be investing over \$700 million over the next decade, starting in 2023, to “harden” and improve the reliability of its distribution system. Together, the revenue requirement for the capital investments made since Wisconsin Electric’s last rate case totals \$139.2 million.

Five additional drivers account for the balance of the 2023 revenue deficiency: \$29.3 million in transmission expense increases; \$34.8 million due to expiring wholesale contracts; \$23.7 million related to the company’s revised sales forecast; \$68.1 million in amortization of regulatory assets previously authorized by the Commission; and \$9.8 million of additional tax expense.

These cost increases are offset by savings that Wisconsin Electric can manage, including in day-to-day operations and maintenance expense, which reduces the revenue requirement by \$18.1 million, and an \$8.3 million reduction to cost of capital resulting from the Company’s effective management of interest expense through strategic debt refinancing.

Wisconsin Electric’s total cost to provide electric service to customers in 2023 will be approximately \$260.5 million, or 8.4%, higher than is recovered under current rates. Based on preliminary analysis, a typical residential customer’s bill is expected to increase between \$5-\$6 per month.

Fuel costs for 2023, which are reflected in the forecast revenue deficiency summarized above, are expected to decline by a total of \$45.3 million (4.7%) compared to the company's 2022 fuel plan.

Wisconsin Electric seeks a limited electric rate reopener for 2024 to address the revenue requirements associated with recovering new capital investments that will achieve commercial operation in 2023 and 2024. This reopener will also ensure that customers receive the full benefit of reduced operations and maintenance expenses from future coal plant retirements. Additionally, the company expects to file a fuel plan case for 2024.

The Applicants also seek an increase of \$50.7 million (or 10.7%) for Wisconsin Electric-Gas Operations; \$60.1 million (or 8.3%) for Wisconsin Gas; and \$3.3 million (or 15.5%) for Wisconsin Electric's downtown Milwaukee steam utility. The increases for the gas utilities are largely driven by capital investments that have previously been approved by the Commission being put into rate base, including the Bluff Creek liquefied natural gas facility and Lakeshore Lateral Project. Wisconsin Electric – Gas Operations and Wisconsin Gas also seek a limited gas rate reopener for 2024 to address the additional revenue requirements associated with the Bluff Creek facility being in service for a full year and for the Ixonia liquefied natural gas facility that will achieve commercial operation during 2024.

The increased revenue requirement for the steam utility is driven primarily by capital investment and forecast reductions in sales volumes. While there is a forecasted base rate increase for steam customers, the bill impact is expected to be minimal – and in many cases near zero – because the surcharge to recover the fuel costs from the 2021 Presidents' Day weekend price spike will expire at the end of this year.

Accompanying this Application is the following direct testimony:

- Mr. Ted Eidukas gives an overview of the Applicants' request in this case.
- Mr. Joseph Zgonc presents the Applicants' forecasted income statements and balance sheets along with the test year revenue requirement for each utility. Mr. Zgonc also discusses the Applicants' capital investments since their last rate case and requested changes to their capital structure. Finally, Mr. Zgonc discusses the retirement of certain coal-powered plants.
- Mr. Steve Pecha discusses Wisconsin Electric's investments to harden its distribution system to increase reliability.
- Ms. Kimberly Keller presents Wisconsin Electric's fuel cost plan for 2023.
- Mr. Jared Peccarelli supports the 2023 electric sales forecast for Wisconsin Electric and the 2023 gas sales forecast for Wisconsin Gas and Wisconsin Electric – Gas Operations.
- Ms. Ann Bulkley of The Brattle Group discusses the Applicants' requested changes to authorized 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.

The attached testimony and exhibits demonstrate that the Applicants' requested rate increases will result in just and reasonable rates while we continue to provide affordable, reliable, and clean electric and natural gas service.

Finally, we will be filing separate cost of service and rate design testimony for Wisconsin Electric and Wisconsin Gas in late-May.

Sincerely,

A handwritten signature in black ink that reads "Robert M. Garvin". The signature is written in a cursive style with a large initial "R".

Robert M. Garvin
Executive Vice President
External Affairs