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Public Service Commission of Wisconsin
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December 16, 2015

Via ERF5

Ms. Sandra Paske
Secretary to the Commission
Public Service Commission of Wisconsin
610 North Whitney Way
P.O. Box 7854
Madison, WI 53707-7854

Re: Docket 6680-CE-176
Notification of Settlement Agreement

Dear Ms. Paske:

Please see the attached Settlement Agreement between Wisconsin Electric Power Company, Wisconsin Public Service Corporation, and Wisconsin Power & Light Company. We plan to discuss this agreement at the status conference tomorrow.

Best regards

/s/ Brian H. Potts

Brian H. Potts

Enclosures

cc: Service List

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is made this 16th day of December, 2015, by and between Wisconsin Electric Power Company ("Wisconsin Electric"), Wisconsin Public Service Corporation ("WPSC") and Wisconsin Power and Light Company ("WPL") (collectively, "the Parties") as follows:

WHEREAS Wisconsin Electric, WPSC, and WPL are each a public utility organized under the laws of Wisconsin and each provides electric service to customers in Wisconsin; and

WHEREAS WPL has filed with the Public Service Commission of Wisconsin ("PSCW") in Docket No. 6680-CE-176 an Application for a Certificate of Public Convenience and Necessity ("CPCN") to build an approximately 650-megawatt natural gas-fueled power plant at its Riverside Energy Center Facility in Beloit, Wisconsin (the "Application"); and

WHEREAS Wisconsin Electric and WPSC have sought and been granted intervention in this proceeding to propose Purchased Power Agreement ("PPA") alternatives to the Application; and

WHEREAS the Parties now wish to resolve their past differences with regard to issues raised by Wisconsin Electric and WPSC in this proceeding and covered by this Agreement; and

WHEREAS the Parties have engaged in arms' length negotiations resulting in this Agreement; and

WHEREAS the Parties have been advised by counsel and are satisfied that the terms and conditions of this Agreement are fair, adequate and reasonable:

NOW, THEREFORE, in consideration of the promises and the mutual agreements contained in this Agreement, and other good and valuable consideration, the sufficiency of which the Parties acknowledge, the Parties agree as follows:

1. **Continued Processing of CPCN Application.** With the exception of the modification included in Paragraph 3 below, and subject to the terms and conditions of this Agreement, the Parties agree that the Riverside Energy Center Expansion project ("RECE") CPCN proceeding may continue without delay or modification.
2. **Effectiveness.** This Agreement is contingent upon PSCW approval of the CPCN Application with order conditions agreeable to WPL.
3. **Modification of RECE Market Participation Date.** WPL will not offer RECE as a capacity asset into the Midcontinent Independent System Operator ("MISO") Module E-1 process before the earlier of June 1, 2020, or any other date set by MISO for qualifying generation as a capacity asset for the 2020-2021 Module E-1 planning year.
4. **Parties' Conduct in the Proceeding.** Unless compelled to do so by the PSCW, and except to the extent necessary or desirable to identify and explain the terms of this Agreement,
 - a. Wisconsin Electric will not offer into evidence any of the testimony or exhibits it has filed, sponsor any witnesses for direct or cross-examination, offer any other evidence, or cross-examine any witnesses

testifying before the Commission in the hearing, and will not submit any post-hearing briefs in this proceeding; and

b. As it pertains to the testimony and exhibits Wisconsin Electric has filed, WPL will not offer into evidence any of the testimony or exhibits it has filed, sponsor any witnesses for direct or cross-examination, offer any other evidence, or cross-examine any witnesses testifying before the Commission in the hearing, and will not submit any post-hearing briefs.

5. **RECE Interconnection Study.** On or before January 31, 2016, the Parties will file a joint request with MISO requesting that MISO complete a non-binding optional study (or equivalent) of a 345 kV interconnection of RECE to the transmission system owned and operated by American Transmission Company, LLC (the "RECE Interconnection Study"). If MISO agrees to complete the RECE Interconnection Study and such study recommends a 345 kV interconnection, WPL will plan for, apply for all necessary regulatory approvals, and implement MISO's recommendation in coordination with American Transmission Company, LLC as transmission provider.

6. **WPSC Ownership Option in RECE.** If WPL completes construction of RECE, WPL shall grant to WPSC two options for ownership of an undivided ownership interest in RECE, as follows:

a. For a period of two years commencing on the date on which RECE is first placed into commercial operation (the "RECE In-Service Date"), WPSC shall have the option at any time to purchase from WPL an undivided

ownership interest in RECE proportional to up to 100 megawatts of RECE's generating capacity, with the purchase price equal to a portion of RECE's then-current book value proportional to WPSC's ownership interest.

- b. For a period of two years commencing on the date that WPSC's option under Section 6.a. expires, WPSC shall have the option at any time to purchase from WPL an undivided ownership interest in RECE proportional to up to a cumulative 200 megawatts of RECE's generating capacity with the purchase price equal to a portion of RECE's then-current book value proportional to WPSC's ownership interest. For the sake of clarity, the maximum amount of RECE's generating capacity WPSC may acquire under this Agreement is 200 MW.
- c. To the extent practicable, the material terms of any RECE operating agreement mutually agreed to by WPSC and WPL as part of the ownership option described in this paragraph shall apply equally in any acquisition by WPL under paragraph 7. below.

- 7. **WPL Ownership Option in Future Wisconsin Electric or WPSC NGCC.** In the event that Wisconsin Electric or WPSC constructs and places into service at a single site one or more natural gas combined cycle generating units (the "WE NGCC") in Wisconsin with a commercial operation date (the "WE NGCC In-Service Date") within ten years of the RECE In-Service Date, Wisconsin Electric or

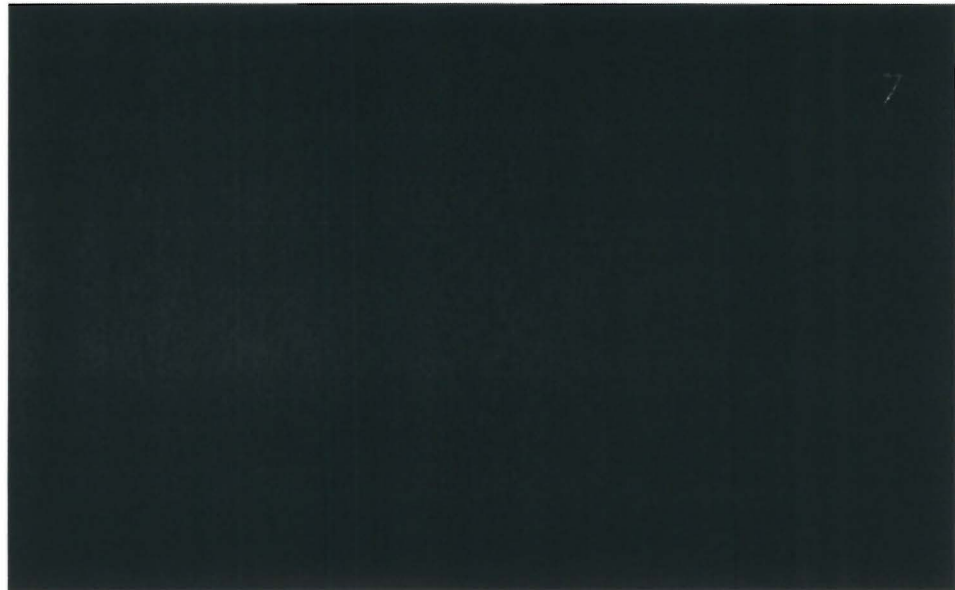
WPSC, as the case may be, shall grant to WPL two options for ownership of an undivided ownership interest in the WE NGCC, as follows:

- a. For a period of two years commencing on the WE NGCC In-Service Date, WPL shall have the option to purchase an undivided ownership interest in the WE NGCC proportional to up to 100 megawatts of the WE NGCC's generating capacity, with the purchase price equal to a portion of the WE NGCC's then-current book value proportional to WPL's ownership interest.
- b. For a period of two years commencing on the date that WPL's option under Section 7.a. expires, WPL shall have the option to purchase an undivided ownership interest in the WE NGCC proportional to up to a cumulative 200 megawatts of the WE NGCC's generating capacity, with the purchase price equal to a portion of the WE NGCC's then-current book value proportional to WPL's ownership interest. For the sake of clarity, the maximum amount of the WE NGCC's generating capacity WPL may acquire under this Agreement is 200 MW *except that* if WPSC acquires a lesser amount of RECE's generating capacity under paragraph 6., WPL's option to acquire WE NGCC generating capacity shall be capped at that same number of megawatts.
- c. WPL shall not have an option to acquire an ownership interest in the WE NGCC unless WPSC exercises its option to acquire a portion of RECE's generating capacity under paragraph 6.

d. In no event will WPL be permitted to acquire a majority of the generating capacity of the WE NGCC.

8. **WE-WPL PPA.** Wisconsin Electric and WPL shall enter into a PPA (the "WE-WPL PPA") for the MISO planning years 2017, 2018, and 2019 (the "PPA Term") containing the following terms and conditions:

a. Wisconsin Electric will sell, and WPL shall purchase, the following quantities of capacity and energy at the following prices in each year of the PPA Term:



b. Additional terms of the WE-WPL PPA shall be defined via separate agreement.

c. The commercial terms contained in this paragraph 8 shall be confidential.

9. **Renewable Generation Joint Development Agreement.** The Parties will, in good faith, negotiate a separate Renewable Generation Joint Development Agreement

for the purpose of cooperatively developing utility-scale renewable resources physically located in the State of Wisconsin for the benefit of their respective customers. The term of such agreement shall be 10 years commencing on a date no later than June 1, 2016. The utility that originates a new utility-scale (greater than 50 megawatt) renewable generation resource developed under the Renewable Generation Joint Development Agreement shall hold majority ownership and operational control over that resource. Each utility shall have the right to acquire a minority interest in the other utility's utility-scale renewable generation resources developed under the Renewable Generation Joint Development Agreement.

10. **Columbia Collaboration Agreement.** WPL and WPSC shall negotiate in good faith a separate Columbia Collaboration Agreement that amends the terms, conditions and governance provisions under which WPL and WPSC share ownership of the Columbia Generating Station ("CGS") near Pardeeville, Wisconsin. The Columbia Collaboration Agreement shall provide, at a minimum, that:

- a. WPSC shall have the right but not the obligation to pay any capital expenditures, with the exception that WPSC shall remain obligated to pay its proportionate share of capital expenditures associated with the installation of the selective catalytic reduction emission control equipment authorized by the Commission in Docket 05-CE-143.

- b. WPL's ownership share of CGS shall be increased proportionally to its prudent capital expenditures, provided that WPSC does not pay its proportionate share of such expenditures.
 - c. The Columbia Collaboration Agreement shall terminate on the RECE In-Service Date and WPS will be responsible for capital expenditures in accordance with their ownership share after the time of termination.
11. **Cooperation.** The Parties agree to cooperate in seeking regulatory and legal approval for any transactions contemplated by this Agreement, including but not limited to, as reasonably necessary, by participating in regulatory and legal proceedings through filing testimony, sponsoring witnesses, and filing briefs, and by cooperating with respect to public statements. The Parties further agree that PSCW, other regulatory, or MISO approvals may be required for transactions contemplated by this Agreement. Without limiting the contingency described in paragraph 2., failure to achieve required approvals for any transaction contemplated by this Agreement shall not void the Agreement.
12. **Nature of Agreement.** The Parties agree this Agreement is reasonable, prudent, in the public interest and will aid in the expeditious conclusion of this case.
13. **Non-Disparagement.** The Parties agree that they will not disparage one another (in any way, orally or in writing), in regard to any Party's positions, filings, or actions made in the Application.
14. **Entire Agreement.** This Agreement contains the entire agreement between the Parties with respect to the subjects addressed herein. In entering into this

Agreement, no Party is relying on any representation or consideration not expressed herein. Any modification of this Agreement may be made only by an instrument in writing signed by or on behalf of all Parties hereto.

15. **Signature by Counterparts.** All Parties agree that this Agreement may be executed in counterparts and a signature by copy, facsimile or PDF is as binding as an original signature.

Dated: December 16, 2015

WISCONSIN ELECTRIC POWER COMPANY

BY: Robert M. Ganni
Executive VP - External Affairs

Dated: December 16, 2015

WISCONSIN PUBLIC SERVICE CORPORATION

BY: Robert M. Ganni
Executive VP - External Affairs

Dated: December 16, 2015

WISCONSIN POWER & LIGHT COMPANY

BY: [Signature]
SVP-GL