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Public Service Commission of Wisconsin
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Ex.-WPL-Application

Docket No. 6680-UR-124

BEFORE THE
PUBLIC SERVICE COMMISSION
OF WISCONSIN

Application of Wisconsin Power and Light Company for Authority to Adjust Electric and Natural Gas Rates for 2024 and 2025 Test Years	Docket No. 6680-UR-124

APPLICATION

I. INTRODUCTION

Wisconsin Power and Light Company ("WPL" or "the Company") seeks to make things better for its customers and the communities it serves, while meeting its obligation to provide its customers with safe and reliable service.[1] The Company prioritizes managing costs to keep rates affordable, while investing in prudent projects to secure a cleaner and more reliable energy future for customers.

With this application, WPL seeks to advance its objective of making investments on behalf of customers, while maintaining affordable retail rates. Based on current forecasts of costs and revenues, WPL projects both an electric and natural gas revenue requirement deficiency. Therefore, WPL requests authorization from the Public Service Commission of Wisconsin ("Commission") to increase overall retail electric revenues by approximately 8.4 percent for the 2024 test year and an incremental amount of approximately 5.4 percent for the 2025 test year. WPL also requests authorization to increase overall retail natural gas revenues by approximately 6.3 percent for the 2024 test year.

[1] WPL is a Wisconsin corporation and public utility, as defined in Wis. Stat. § 196.01(5), that provides retail electric and natural gas service throughout central and southwestern Wisconsin.

WPL is cognizant of how this request affects its customers and, consistent with its practice, has taken reasonable measures to mitigate the impact of this revenue requirement increase on its customers. The proposed revenue requirement increase is needed to enable WPL to continue making investments on behalf of customers, to cover substantial investments already made, and to ensure the Company earns a fair return on those investments. The basis for WPL's request is set forth in greater detail in this application and in the accompanying testimony and exhibits.

II. BACKGROUND

WPL is proud to provide safe, reliable, and affordable service to its customers, while transitioning to cleaner, more cost-effective, and customer-focused technologies. WPL has worked to achieve these objectives, while prudently managing costs and keeping rates affordable.

In 2020, WPL filed, and received approval, to freeze its retail electric and natural gas base rates for test year 2021 at the amounts established for 2019 and 2020. In 2021, WPL filed an application, and received approval, to modify base rates in 2022 consistent with a settlement agreement. WPL held those base rates flat in 2023 for its electric utility and requested, and was authorized to, modify its natural gas rates for 2023 through a limited reopener application.[2] In 2022 and continuing into 2023, WPL has managed inflation and interest rate increases that were not anticipated in its last rate proceeding.

WPL continues to implement its customer-focused Clean Energy Blueprint ("Blueprint"). Consistent with its Blueprint, WPL is in the process of constructing twelve,

[2] WPL electric rates were adjusted for fuel costs, including its 2023 fuel cost plan (Docket No. 6680-ER-103) and its 2021 fuel cost reconciliation (Docket No. 6680-FR-2021).

utility-scale solar projects totaling nearly 1,100 megawatts ("MW").[3] Three of those projects went into service in 2022, seven are scheduled to go into service by the end of 2023, and the last two in 2024. While WPL had originally planned to finance these projects through a tax equity investment structure, the Inflation Reduction Act of 2022 ("IRA") presented WPL with the opportunity to increase the benefits of those projects for customers by using traditional financing and monetizing the production tax credits ("PTCs"). WPL is also seeking to install 274 MW of battery energy storage and will soon be filing requests for capacity and efficiency upgrades at two of its combustion turbines. Those projects will further strengthen the reliability and resiliency of WPL's system while also enabling WPL to adapt to the Midcontinent Independent System Operator's ("MISO's") new seasonal capacity construct. The IRA provides increased investment tax credit ("ITCs") benefits for the batter energy storage projects and provides an opportunity to return benefits of the ITCs to customers more rapidly than over the useful life of the projects.

III. OVERVIEW OF WPL'S APPLICATION AND PROPOSALS

WPL projects a revenue requirement deficiency for its electric and natural gas operations for the 2024 and 2025 test year period. To address that deficiency, WPL requests Commission authorization to implement a two-step increase in overall retail electric revenues and a single-step increase in overall retail natural gas revenues. Specifically, WPL requests to increase retail electric revenues by approximately $110.9 million (8.4 percent) as of January 1, 2024, and by an incremental amount of approximately $71.0 million (5.4 percent) effective January 1, 2025. WPL requests to

[3] WPL requested approval from the Commission to acquire, construct, and install 12 new solar projects in Wisconsin. *See* Docket Nos. 6680-CE-182 and 6680-CE-183.

increase overall retail natural gas revenues by approximately $16.5 million (6.3 percent). These proposed revenue requirement increases will align the system benefits that customers are receiving with the reasonable costs that WPL has prudently incurred to serve customers. The details of WPL's requested revenue requirement increase, along with its various proposals are set forth in the testimony and exhibits filed with and in support of this application. The remainder of this application highlights certain of the regulatory and accounting treatments and other proposals for which WPL requests Commission approval.

A. Primary drivers associated with revenue requirement increase

1. Electric revenue requirement drivers

The major drivers for WPL's requested electric revenue requirement increase include, among others (1) investments made on behalf of electric customers consistent with WPL's Clean Energy Blueprint ("Blueprint") and to provide safe, reliable, and efficient utility service, (2) the expiration of material regulatory liability credits at the end of 2023, and (3) proposed changes to WPL's capital structure and costs of capital.

The investments on behalf of customers include the twelve solar generation projects that the Commission approved in Docket Nos. 6680-CE-182 and 6680-CE-183 ("Solar Projects"). WPL's revenue requirements reflect WPL's direct ownership of the Solar Projects in lieu of ownership through a tax equity structure, which was assumed in WPL's last rate proceeding. WPL's revenue requirements also include the impacts of battery energy storage system ("BESS") projects that are pending before the

Commission,[4] as well as planned capacity and efficiency improvement projects at two of WPL's combustion turbines—Neenah and Sheboygan Falls—for which WPL expects to file for Commission approval in the near future.

In WPL's last rate proceeding, material regulatory liability credits were used to moderate the rate impacts for the 2023 test year. Those credits expire at the end of 2023 resulting, along with other net impacts of proposed changes in regulatory asset and liability amortizations, in an increased revenue requirement starting in 2024.

WPL's is proposing changes to its capital structure and cost of capital to support cash flow needs in continuation of its customer-focused construction, including the increase in interest rates since WPL's last rate proceeding. Those changes are also affecting revenue requirements.[5]

2. Natural Gas revenue requirement drivers

The major drivers for WPL's requested natural gas revenue requirement increase include, among others, (1) increased rate base, (2) the changes in regulatory asset and liability amortizations, and (3) the impacts of proposed changes in WPL's capital structure and costs of capital. WPL's natural gas revenue requirements include increased rate base due to continued customer-focused investments. That includes changes in rate

[4] *Application of Wisconsin Power and Light Company for a Certificate of Authority to Acquire, Construct, Own, and Operate Six Solar Electric Generation Facilities, Known as the North Rock, Grant County, Crawfish River, Onion River, Bear Creek, and Wood County Projects, to be located in Rock, Grant, Jefferson, Sheboygan, Richland, and Wood County, Wisconsin*, Docket No. 6680-CE-182, Petition for Limited Reopening and Modification of Final Decision (filed Sept. 30, 2022) (PSC REF#: 448472) (application for 100 MW BESS at Grant County solar project and 75 MW at Wood County solar project); *Application of Wisconsin Power and Light Company for a Certificate of Authority for Construction, Installation, and Operation of a Battery Energy Storage System, Known as the Edgewater BESS Project, in Sheboygan County, Wisconsin*, Docket No. 6680-CE-184, Application of Wisconsin Power and Light Company for a Certificate of Authority (filed Jan. 31, 2023) (PSC REF#: 458348) (application for 99 MW BESS at Edgewater).

[5] WPL witness Neil Michek discusses these drivers and others, including transmission, pension and benefits, and performance compensation.

base that occurred in the 2023 test year but were not addressed in the reopener of WPL's last rate proceeding (Docket No. 6680-UR-123) as that reopener was limited to specifically identified topics. In addition, the natural gas revenue requirements include the impacts resulting from changes in regulatory asset and liability amortizations since WPL's last rate review. And, as discussed above, WPL's is proposing changes to its capital structure and cost of capital to support cash flow needs in continuation of its customer-focused construction, including the increase in interest rates since WPL's last rate proceeding; those changes are also affecting revenue requirements.

B. Description of other accounting, ratemaking, and rate design proposals

The following provides an overview of certain of WPL's accounting, ratemaking, and rate design proposals, supported by the testimony and exhibits of WPL's witnesses.

1. Maintain WPL's currently authorized 10.0 percent return on equity ("ROE").

WPL proposes to maintain its currently authorized ROE of 10.0 percent. As discussed in the direct testimony of WPL witness Bulkley, capital market conditions have changed significantly since WPL's most recent rate case. Looking to the current and expected economic and financial conditions would indicate that WPL should propose to increase its ROE above 10.0 percent, consistent with trends in the financial models used to determine the ROE that is needed to adequately compensate investors. To be mindful of cost impacts on WPL's customers, WPL is not proposing to increase its ROE above its currently authorized 10.0 percent, but rather to maintain that level, as it is the lowest point in the reasonable range identified by ROE estimation models.

WPL witnesses Ann Bulkley and Neil Michek provide support for WPL's request to maintain a 10.0 percent ROE.

2. Authorize WPL to adopt a financial common equity ratio of 55 percent.

WPL is proposing to increase its common equity ratio from 52.5 percent to 55 percent. The increased common equity ratio will improve WPL's cash flows on a relative basis, which have been negatively impacted since 2017. As WPL has worked to return the benefits of the 2017 Tax Cuts and Jobs Act to customers through rates in a relatively expeditious manner, cash flows from utility operations have not kept pace with the increased level of debt WPL has incurred as it has invested in electric and natural gas operations. WPL's proposed capital structure will provide WPL with an adequate degree of flexibility to finance capital requirements going forward. WPL witnesses Bulkley and Michek provide support for WPL's request to increase its financial common equity ratio.

3. Protection mechanisms.

WPL requests that the Commission permit it to implement certain protection mechanisms that are generally designed to provide symmetrical benefits and protections to both customers and the Company. Those protection mechanism include continuation of the escrow or deferral accounting treatment for certain costs, including transmission, conservation and demand-side activities, farm wiring programs, pension and other post-employment benefits, bad debt, West Riverside sales, new construction, and coal plant retirement. Escrow or deferral treatment has historically been used for costs that may vary materially depending on factors that are largely outside of WPL's control, or to provide an appropriate incentive or eliminate a disincentive.

WPL's proposal to continue escrow treatment for transmission, conservation activities, and farm wiring is consistent with longstanding Commission practice. Escrow of pension and other post-employment benefits is appropriate as it is notably influenced by general economic conditions; in addition, escrow of pension and other post-employment benefits is authorized under Wis. Stat. § 196.20(9). Continuing the bad debt escrow will ensure symmetrical protections for customers and the Company as WPL continues to work to support customers who fall behind in payments. Furthermore, the escrows of West Riverside sales, new construction, and coal plant retirement ensure that the benefits and cost of the changes in WPL's generation fleet are appropriately aligned with customers and the Company.

WPL is also proposing new escrow mechanisms to address (1) production tax credits ("PTCs") and investment tax credits ("ITCs"), (2) capacity expense, and (3) deferral associated with WPL's proposed, Power Partnership tariff.

The provisions of the Inflation Reduction Act of 2022 have multiple impacts on WPL's revenue requirements, including providing the ability for WPL to monetize PTCs and ITCs on behalf of its customers. The proposed deferral will help ensure that customers receive the actual value of the credits net of the associated costs associated with transferability.

The capacity expense escrow provides a mechanism to address potential capacity purchase needs, including in light of MISO's transition to a seasonal construct. The mechanism would also address potential changes in the Sheboygan Falls lease and costs changes associated with the cooperatives' ownership share of West Riverside Energy Center. Moreover, this mechanism would act as an effective corollary to the treatment of capacity sales revenues under Wis. Admin. Code ch. PSC 116 ("Fuel Rules").

Finally, WPL proposes to defer the system asset value credit, which is a component of the Power Partnership discussed below and in the testimony of WPL witness Tyson Cook.

WPL witness Michek provides support for WPL's requested protection mechanisms.

4. Implementation of new rates and programs.

WPL is proposing to implement and promote several new innovative programs to help customers better manage their energy use, improve affordability, and better align compensation of small-scale, customer-owned distributed energy resources ("DERs"). The following are among the rates and programs that WPL is proposing. First, WPL is proposing a new Energy Care Credit, which will provide increased support for customers receiving Wisconsin Home Energy Assistance Program ("WHEAP") benefits and further encourage eligible customers to apply for WHEAP funding. Second, WPL is proposing a program to transition customers to a better rate, while protecting the customer if, after the first year, they would have been better off under WPL's standard rate. WPL witness Veronica Stober addresses these customer-focused proposals. Finally, WPL is proposing a new "Power Partnership" tariff that will better reflect the customer's generation and usage and further align the interest of customers with small-scale DERs and the Company. WPL witness Tyson Cook describes in detail and provides support for this tariff.

5. Authorize WPL to include in retail rates the revenue requirement associated with recovering the remaining net book value of Edgewater 5 as a regulatory asset upon retirement.

WPL's Clean Energy Blueprint includes resource transformation efforts, including the retirement of Edgewater Unit 5 in 2025, an approximately 400 MW, coal-fired electric generating unit in Sheboygan, Wisconsin. WPL's analysis showed that replacing its remaining coal-fired generation (including Edgewater Unit 5, which has benefited customers for decades) with new, utility scale solar generation will enable customers to avoid more than $2 billion in nominal costs over the next 35 years. At the time of its last rate review, WPL anticipated retiring Edgewater 5 by the end of 2022. WPL subsequently extended the planned retirement date until June 1, 2025, to address multiple uncertainties, including regional capacity and supply chain challenges and to ensure safe, reliable, and affordable service for customers.

WPL requests Commission authority to include in retail rates the revenue requirements associated with recovery of the unit's remaining net book value. Specifically, WPL proposes to (1) transfer the remaining net book value for Edgewater 5 from the applicable utility plant in-service and accumulated depreciation accounts to Account 182.2 (Unrecovered Plant and Regulatory Study Costs), and include the transferred balance in NIRB; and (2) record the continued amortization of the remaining net book value and remaining costs of removal in Account 407 (Amortization of Property Losses, Unrecovered Plant and Regulatory Study Costs), and include the amortization expense in revenue requirements. WPL requests to continue to recover the remaining net book consistent with the levelized recovery authorized by the Commission in WPL's last rate review (Docket No. 6680-UR-123). Consistent with the Commission's Final Decision in that docket, WPL is also presenting analyses of other recovery methodologies. WPL witness Neil Michek addresses these topics in greater detail.

6. Authorize WPL's proposed 2024 Fuel Cost Plan

WPL is also requests approval of its 2024 Fuel Cost Plan ("2024 FCP"). A notable distinction between WPL's proposed 2024 FCP and WPL's approved 2023 FCP is the treatment of the Solar Projects. In WPL's last rate review and fuel cost plan proceedings (Docket Nos. 6680-UR-123 and 6680-ER-103), it was planned and assumed that WPL would own the Solar Projects through tax equity partnerships. In light of this, the overall revenue requirements reflected in Docket No. 6680-UR-123 included WPL's customers' share of the projected energy benefits of the Solar Projects, instead of the energy benefits of the solar projects running directly through the fuel costs. With the transition to direct, utility ownership of the Solar Projects (in lieu of through a tax equity structure), the energy benefit associated with the Solar Projects will now run through the fuel costs. WPL's proposed 2024 FCP captures those benefits. WPL witness Brett Behling provides support for WPL's proposed 2024 FCP.

IV. CONCLUSION

In light of the foregoing, WPL respectfully requests that the Commission approve WPL's request to increase overall retail electric revenues by approximately $110.9 million (8.4 percent) as of January 1, 2024, and by an additional, approximately $71.0 million (5.4 percent) as of January 1, 2025, as well as to increase overall retail natural gas revenues by approximately $16.5 million (6.3 percent), and to approve WPL's 2024 fuel cost plan, as described above and in further detail in the accompanying testimony being filed concurrently with this application.

Respectfully submitted this 28th day of April 2023

WISCONSIN POWER AND LIGHT COMPANY

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