Public Service Commission of Wisconsin
Direct Testimony of Eric Griffin
Division of Energy Regulation and Analysis

Madison Gas and Electric Company
Docket 3270-UR-125

August 28, 2023

Q. Please state your name, business address, and occupation.

A. My name is Eric Griffin. My business address is 4822 Madison Yards Way, P.O. Box 7854, Madison, Wisconsin 53707-7854. I am employed by the Public Service Commission of Wisconsin (Commission) as a Public Utility Auditor in the Division of Energy Regulation and Analysis.

Q. Please state your educational background and experience.

A. I graduated from the University of Wisconsin-Whitewater in 2005, receiving a Bachelor of Business Administration degree with a major in Accounting, and earned an Economics Minor in 2006. Prior to accepting my position with the Commission, I worked at a public accounting firm for 3 years, where I primarily provided assurance services to clients in agri-business, manufacturing, and mutual insurance industries. After that, I worked as an internal auditor for an insurance company for 13 years, where I performed financial, operational, and compliance audits, conducted risks assessments, and documented and tested internal controls for effectiveness to assist with business decisions. I have been employed as a Public Utility Auditor by the Commission since April 2022.

Q. Please explain the purpose of this proceeding and describe Madison Gas and Electric Company's (applicant) request to the Commission.

A. On April 28, 2023, the applicant filed an application with the Commission requesting authority to increase its electric rates effective January 1, 2024, and January 1, 2025, and natural gas rates effective January 1, 2024, and January 1, 2025. The applicant's filing indicated revenue deficiencies of $18.0 million, or 3.75 percent, for 2024 electric operations and $6.0 million, which is 2.56 percent of total revenues for 2024 natural gas operations. The filing also indicated a revenue deficiency of $16.9 million, which is 3.41 percent of total revenues for 2025 electric operations and $4.0 million, which is 1.66 percent of total revenues for 2025 natural gas operations. The applicant's requested rate increase reflects a 9.80 percent return on common stock equity.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide the Commission, and all parties in this proceeding, with a proposed income statement, average net investment rate base, and revenue requirement for the test years ending December 31, 2024, and December 31, 2025, for the electric and natural gas utilities, to be used as a basis for determining final rates in this docket.

Q. Are you sponsoring any exhibits with your direct testimony?

A. Yes, I am sponsoring one exhibit. Ex.-PSC-Griffin-1 is entitled *Madison Gas and Electric Company Docket 3270-UR-125 Estimated Income Statement, Average Net Investment Rate Base, and Revenue Requirement for the Electric and Natural Gas Utilities for the Test-Years Ending December 31, 2024 and 2025.*

Q. Was this exhibit prepared by you or at your direction?

A. Yes, it was.

Q. Please summarize Commission staff's estimated revenue deficiencies for the applicant's electric and natural gas operations.

A. Based on its audit, Commission staff estimates that a $7.3 million increase, or 1.54 percent on total revenues, is needed for 2024 electric operations and a $5.0 million increase, or 2.27 percent on total revenues and 4.90 percent on margin revenues, is needed for 2024 natural gas operations. In addition, Commission staff estimates that a $19.8 million increase, or 4.09 percent on total revenues, is needed for 2025 electric operations and a $3.1 million increase, or 1.26 percent on total revenues and 2.85 percent on margin revenues, is needed for the 2025 natural gas operations. The 2024 and 2025 electric and natural gas revenue deficiencies are based on a 9.70 percent rate of return on common stock equity. The return on common equity is discussed in the direct testimony of Commission staff witness Reed Tierney.

Q. Please explain Schedules 1, 2, 3, and 4 of Ex.-PSC-Griffin-1.

A. Schedule 1 shows the applicant's 2024 test-year filed income statement and average net investment rate base for electric operations compared with Commission staff's estimates. Schedule 2 shows the same information for the applicant's electric operations for the 2025 test year. Schedule 3 shows the applicant's 2024 test-year filed income statement and average net investment rate base for the applicant's natural gas operations for the 2024 test year. Schedule 4 shows the same information for the applicant's natural gas operations for the 2025 test year.

Q. Please explain Schedule 5 of Ex.-PSC-Griffin-1.

A. Schedule 5 shows Commission staff's individual adjustments to the applicant's filed electric and natural gas utilities estimated income statement and average net investment rate base for the 2024 and 2025 test years.

Q. Please provide explanations for the adjustments shown on Schedule 5.

A. While some of the adjustments were based on an historic inflated average and need no further explanation, there are some adjustments I would like to discuss.

Q. Please explain Adjustments 1 and 18 on Schedule 5.

A. Adjustments 1 and 18 show the adjustments to electric and natural gas sales revenues for the 2024 and 2025 test years. Using historical and linear trend analysis and allowing for impacts related to the COVID-19 pandemic, Commission staff adjusted various electric rate classes which resulted in an overall revenue decrease of $2.6 million and $12.1 million for the 2024 and 2025 test years, respectively.

Commission staff made an adjustment to the gas sales Rd-1 rate class, increasing the sales forecast by 271,000 therms for the 2024 test year and 384,000 therms for the 2025 test year. Commission staff's adjustment to the residential rate class results from a higher customer count forecast. The historical customer counts had a strong linear growth rate therefore Commission staff chose to use a compound annual growth rate based on 2021 and 2022 actual amounts to forecast the 2024 and 2025 test year total. Based on the adjustments discussed above and a New York Mercantile Exchange (NYMEX) update, the natural gas sales revenue forecast had an overall decrease of $15.1 million for the 2024 test year and an overall increase of $5.5 million for the 2025 test year.

Q. Do you have any other comments relating to sales revenue?

A. Yes. It was identified during Commission staff's rate design that there was an error with the sales forecast for 2025. The electric and natural gas forecasts for 2025 were based on applicant proposed 2024 rates instead of the Commission authorized rates from 2023. Based on preliminary information, the impact of this the error is an increase to the 2025 revenue deficiencies of approximately $7.3 million for electric operations and $5.0 million for natural gas operations. I will provide more precise impact information, including a revised revenue requirement exhibit, in my rebuttal testimony. Mr. Eiter will discuss any related rate design impacts in his direct testimony.

Q. Please explain Adjustment 4 on Schedule 5.

A. Adjustment 4 reflects Commission staff's increase to fuel and purchased power, which is discussed in the direct testimony of Commission staff witness Michael Ritsema.

Q. Please explain Adjustments 5 and 20 on Schedule 5.

A. Adjustments 5 and 20 changed Purchased Gas Expense based on Commission staff's natural gas sales adjustments discussed above. In addition, the commodity cost has been updated using the June 30, 2023 NYMEX natural gas strip[1] for years 2024 and 2025.

Q. Please explain Adjustments 6 and 21 on Schedule 5.

A. Adjustments 6 and 21 reflect Commission staff's adjustment to production expenses. Commission staff adjusted the O&M plant maintenance expense of the Combustion Turbines based on an inflated three-year average of non-labor O&M expense over a three-year average of historical megawatt hours resulting in a decrease of $101,000 and $94,000 for electric operations for the 2024 and 2025 test years, respectively. The 2025 test year also includes a decrease of $517,500, which reflects the removal of the applicant's proposed acquisition of West Riverside Energy Center Option 2 (West Riverside Option 2), which I will discuss later in my testimony. The proposed acquisition has not yet been authorized by the Commission and, as such, is not included in revenue requirement as of the date of this testimony.

[1] This is the NYMEX futures prices for natural gas.

Q. Please explain Adjustments 7 and 22 on Schedule 5.

A. Adjustments 7 and 22 reflect Commission staff's adjustment to transmission of electricity, which is discussed in Mr. Ritsema's testimony.

Q. Please explain Adjustments 8 and 23 on Schedule 5.

A. Adjustments 8 and 23 reflect a decrease of $31,000 and $23,000 for electric operations for the 2024 and 2025 test years, respectively, for a portion of Commission staff's adjustment of Informational and Instructional Advertising to the inflated 3-year average. In addition, a $132 decrease and a $236 increase to electric and natural gas operations, respectively, to the applicant's Focus on Energy budget for the 2025 test year will be discussed in the direct testimony of Commission staff witness Mitchell Horrie.

Q. Please explain Adjustments 9 and 24 on Schedule 5.

A. Adjustments 9 and 24 include a decrease of $166,000 for electric operations in the 2024 and 2025 test years and $114,000 for natural gas operations in the 2024 and 2025 test years relating to disallowed portions of industry association dues, investor relations and Institutional or Goodwill advertising expenses. Per long-standing Commission practice, these expenses are disallowed for rate recovery, as the expenses provide no direct ratepayer benefit.

In addition, Adjustment 9 includes a decrease of $58,000 and $33,000 for electric operations in the 2024 and 2025 test years, respectively, to reflect the removal of the applicant's proposed sale of West Riverside Option 2.

The remaining amounts of the adjustments for electric and natural gas operations are related to decreased labor costs which will be discussed next in my testimony.

Q. Please discuss Commission staff's payroll adjustments.

A. The payroll adjustment represents Commission staff's adjustment to the applicant's non-represented payroll and is comprised of multiple components. First, Commission staff reduced the filed 2024 and 2025 regular full-time employees (FTE). Based on actual June 2023 levels and the average vacancy rates over the most recent three and half years, the analysis resulted in a reduction of 10 FTEs for 2024 and 2025.

The second labor adjustment relates to the level of wage increases included in the test-years payroll estimates. Commission staff limited the wage increase for all non-represented employees to the anticipated level of inflation for the 2024 and 2025 test years as provided by Commission finance staff. The rate used for the 2024 and 2025 test years were 2.50 percent and 2.20 percent, respectively, as compared to the 3.0 percent wage increase used by the applicant.

The final labor adjustment was to part-time and seasonal employees' payroll expense. Commission staff limited the total payroll for part-time and seasonal employees to the total amount of actual pay in 2022 adjusted for inflation. The total of all labor adjustments resulted in O&M reductions of $723,000 and $960,000 for the 2024 and 2025 test years, respectively, for the electric operations and $451,000 and $600,000 for the 2024 and 2025 test years, respectively, for the natural gas operations.

Q. Please explain Adjustments 10 through 14 and 25 through 28 on Schedule 5.

A. Adjustments 10 through 14 and 25 through 28 are a flow through based on all other Commission staff adjustments that I discuss in my testimony.

Q. Please discuss Commission staff adjustments to electric and natural gas utility plant in service and Construction Work in Progress (CWIP).

A. Commission staff plant and CWIP adjustments are comprised of multiple components. First, after isolating discrete projects from the analysis, Commission staff applied historic budget-to-actual percentages to the remaining 2023 through 2025 electric and natural gas expenditures and plant additions. The adjustments reflect that based on a four-year average budget to actual analysis for 2018 through 2022, excluding 2021 due to COVID-19, the applicant has historically forecasted higher construction expenditures than what has actually occurred and forecasted a faster entry of plant in service than what has actually occurred. Commission staff also applied a four-year historical actual average to determine retirements. Historically, the applicant has forecasted retirements at a much lower amount than what has actually occurred. Additionally, at the time of audit completion, there is a known delay in the anticipated in-service dates of the Paris Battery Energy Storage System Facility (Paris BESS) project authorized by the Commission in docket 5-BS-254 and the Darien Battery Energy Storage System (Darien BESS) project authorized by the Commission in docket 5-BS-255. To account for these delays, Commission staff adjusted the timing of the plant additions. Based on the applicants' response to Ex.-PSC-Data Request-Responses-PSCW-DAP-Verbal-1, the new anticipated in-service date for the Paris BESS and Darien BESS projects is May 2025. Finally, as the applicant has not yet filed for Commission approval for the authorization to exercise the West Riverside Option 2 acquisition, Commission staff disallowed the project from the applicant's electric plant in service pending the Commission's decision on the acquisition. This capital project will be discussed later in my testimony.

The impact of the above discussed adjustments results in a reduction to the electric average plant in service for the 2024 and 2025 test years of $23.2 million and

$48.8 million, respectively. The adjustments also resulted in a reduction to the natural gas average place in service of the 2024 and 2025 test years of $2.4 million and $4.4 million, respectively. Additionally, due to the above plant adjustments, the electric 2024 and 2025 test year average CWIP balances decreased by $0.2 million and $5.3 million, respectively, and the naturas gas 2024 and 2025 test year average CWIP balances increased by $3.5 million and $3.8, respectively.

Q. Please discuss Commission staff adjustments to other rate base components.

A. Based on the above plant adjustments, average electric accumulated depreciation decreased by $4.2 million and $8.3 million for the 2024 and 2025 test years, respectively, and the average natural gas balance increased by $0.3 million and $0.5 million for the 2024 and 2025 test years, respectively. Additionally, the above plant adjustments decreased average electric deferred tax by $2.4 million and $0.8 million for the 2024 and 2025 test years, respectively and increased the 2024 average natural gas deferred tax by $0.1 million and decrease the 2024 average natural gas deferred tax by $6.9 million and decreased the 2005 average natural gas deferred tax by $0.9 million.

Q. Please discuss the disallowed capital project for the applicant's electric operations.

A. The applicant originally included the acquisition of West Riverside Option 2 citing their intent to seek approval of acquiring this additional ownership interest. As of the time of audit completion, the applicant had not yet sought approval, nor has the Commission granted approval regarding this project. Based on Commission staff past practice, staff has removed all impacts associated with the West Riverside Option 2 pending Commission approval. Should the Commission wish to include the project in this proceeding, the revenue requirement impact of returning West Riverside Option 2 to rate base is approximately $1.4 million and $2.6 million for 2024 and 2025, respectively. The total revenue requirement impact of returning all components, including fuel, of the West Riverside Option 2 purchase would be approximately $0.8 million and $2.6 million for the 2024 and 2025 test years, respectively. If the Commission does not include the West Riverside Option 2 in this rate proceeding, the applicant has requested the Commission authorize deferral accounting treatment for these costs to be addressed in its next rate proceeding. The Commission may wish to consider this request with or without carrying costs. If the Commission wishes to consider carrying costs, Commission staff would recommend using the economic cost of capital, which the Commission could find appropriate for capital investments.

Q. Please discuss the Badger Hollow II Solar Farm (Badger Hollow II) project.

A. The applicant identified in its response to Ex.-PSC-Data Request-Responses-PSCW-DAP-1.2 that there have been increased costs totaling $5.0 million associated with the Uyghur Forced Labor Prevention Act (UFLPA) which went into effect in June 2022 for Badger Hollow II. The applicant identified that the cost overruns associated with the UFLPA are due to modules that had been procured and shipped being held by the U.S. Department of Commerce Customs causing delays.

The Commission originally approved the Badger Hollow II Solar Farm by Final Decision dated March 6, 2022 in docket 5-BS-234. (PSC REF#: 385279.) On June 20, 2022, the applicant filed a force majeure notification for Badger Hollow II citing impacts caused by the global supply chain, events, labor market events, and supply chain and delivery challenges, which affected the vendor's major components and materials used in the Badger Hollow II project. The Commission approved the force majeure costs in the applicants' last rate proceeding in docket 3270-UR-124. (PSC REF#: 454855.) The applicant is now seeking approval for the cost overruns associated with the UFLPA. The applicant also identified that the current estimate of $5 million assumes the UFLPA issues will be resolved, and the project will be able to be placed in-service by the anticipated September 2023 estimate, but further delays and costs increases are possible. The Commission may wish to consider holding additional approval for cost overruns to the Badger Hollow II project until project completion and final cost overruns are known. Should the Commission wish to grant approval for the $5.0 million cost overruns associated with the UFLPA, the revenue requirement impact would be approximately $675,000 and $613,000 for the 2024 and 2025 test years, respectively.

Q. Please explain Schedule 6 and 7 of Ex.-PSC-Griffin-1.

A. Schedules 6 and 7 show Commission staff's calculation of the weighted cost of capital at various returns on common stock equity for the 2024 and 2025 test years. Commission staff's revenue requirements in this proceeding were calculated using a 9.70 percent return on common stock equity, which resulted in a weighted cost of capital of 7.49 percent for both the 2024 and 2025 test years. The return on common stock equity and the estimated interest rates for any new long-term debt and for short-term debt will be discussed in Mr. Tierney's direct testimony.

Q. Please explain Schedule 8 of Ex.-PSC-Griffin-1.

A. Schedule 8 shows Commission staff's calculation of the required return on net investment rate base for the applicant's 2024 electric operations at various rates of return on common equity. Consistent with prior Commission decisions, Commission staff has calculated its required return on net investment rate base to include a 50.00 percent current return on

CWIP for general construction. The applicant's filing and Commission staff's estimates also include CWIP earning a zero percent current return (or 100.00 percent AFUDC) for a total level of CWIP earning 100.00 percent AFUDC of $75.5 million.

Commission staff's estimate of the weighted cost of capital in the 2024 test year, as adjusted to provide a current return on a portion of CWIP, results in Commission staff's required return on net investment rate base of 7.76 percent for the electric utility assuming a 9.70 percent return on common stock equity.

Q. Please explain Schedule 9 of Ex.-PSC-Griffin-1.

A. Schedule 9 shows Commission staff's calculation of the required return on net investment rate base for the applicant's 2025 electric operations at various rates of return on common equity. Consistent with prior Commission decisions, Commission staff has calculated its required return on net investment rate base to include a 50.00 percent current return on CWIP for general construction. The applicant's filing and Commission staff's estimates also include CWIP earning a zero percent current return (or 100.00 percent AFUDC) for a total level of CWIP earning 100.00 percent AFUDC of $64.4 million.

Commission staff's estimate of the weighted cost of capital in the 2025 test year, as adjusted to provide a current return on a portion of CWIP, results in Commission staff's required return on net investment rate base of 7.75 percent for the electric utility assuming a 9.70 percent return on common stock equity.

Q. Please explain Schedule 10 of Ex.-PSC-Griffin-1.

A. Schedule 10 shows Commission staff's calculation of the required return on net investment rate base for the applicant's 2024 test-year natural gas operations at various rates of return on common equity. Commission staff has calculated its required return on net investment rate base for the gas utility to include a 50.00 percent current return on CWIP on general construction.

Commission staff's estimate of the weighted cost of capital in the test year, as adjusted to provide a current return on 50.00 percent of CWIP results in Commission staff's required return on net investment rate base of 7.81 percent for the natural gas utility assuming a 9.70 percent return on common stock equity.

Q. Please explain Schedule 11 of Ex.-PSC-Griffin-1.

A. Schedule 11 shows Commission staff's calculation of the required return on net investment rate base for the applicant's 2025 test-year natural gas operations at various rates of return on common equity. Commission staff has calculated its required return on net investment rate base for the gas utility to include a 50.00 percent current return on CWIP on general construction.

Commission staff's estimate of the weighted cost of capital in the test year, as adjusted to provide a current return on 50.00 percent of CWIP, results in Commission staff's required return on net investment rate base of 7.81 percent for natural gas operations assuming a 9.70 percent return on common stock equity.

Q. Please explain Schedules 12 and 13 of Ex.-PSC-Griffin-1.

A. Schedules 12 and 13 show the development of the electric revenue deficiency at various rates of return on common stock equity for the test years ending December 31, 2024 and 2025. Based on a 9.70 percent return on common equity, the electric revenue deficiency is $7.3 million and $19.8 million for the 2024 and 2025 test years, respectively. A change of 10 basis points in the return on equity would adjust the electric revenue requirement by approximately $1.1 million and $1.0 million for the 2024 and 2025 test years, respectively.

Q. Please explain Schedules 14 and 15 of Ex.-PSC-Griffin-1.

A. Schedules 14 and 15 show the development of the natural gas revenue deficiency at various rates of return on common stock equity for the test years ending December 31, 2024 and 2025. Based on a 9.70 percent return on common equity, the natural gas revenue deficiency is $5.0 million and $3.1 million for the 2024 and 2025 test years, respectively. A change of 10 basis points in the return on equity would adjust the natural gas revenue requirement by approximately $277,000 and $282,000 for the 2024 and 2025 test years, respectively.

Q. Please explain Schedule 16 of Ex.-PSC-Griffin-1.

A. Schedule 16 is a listing of the deferred accounts previously approved for the applicant in the 2024 and 2025 test years and the associated amortization expense.

As a result of the ratemaking process, and with reasonable assurance by a regulatory commission of future cost recovery, utilities sometimes include allowable costs in a period other than the period in which those costs would be charged to expense by an unregulated enterprise in accordance with Generally Accepted Accounting Principles. These differences usually relate to the timing of the recognition of a cost. The result of these timing differences is the creation of deferred accounts. The Commission's policy on deferred accounts is set forth in the Commission Staff's Accounting Policy Team Statement of Position 94-01, approved by the Commission on February 23, 1995.

Q. The applicant is requesting to continue escrow accounting treatment for transmission costs including ATC and Midcontinent Independent System Operator, Inc. charges. Would you like to respond to this request?

A. Yes, due to the scope and uncertainty of the expense levels it would be appropriate for the Commission to consider extending escrow treatment through December 31, 2025.

Q. The applicant is requesting to continue escrow accounting treatment for pension and other post-employment benefit (OPEB) costs and to change the amortization period. Would you like to respond to this request?

A. Yes. Given market volatility and the nature of many of the factors that determine the pension and OPEB costs being outside of the applicant's control, the continued escrow treatment would ensure that both the applicant and its customers remain whole. The applicant's request is consistent with the 2021 Wisconsin Act 24, which provides for escrow accounting treatment for pension and OPEB costs.[2] The applicant is requesting to extend the amortization period from the prior authorized two-year time period to four years. The Commission may wish to consider this request as extending the amortization period would spread out the impact to ratepayers over a longer period.

Q. Please discuss the applicant's request for authority to continue to accrue AFUDC on 100 percent of CWIP associated with projects requiring a Certificate of Authority (CA) or Certificate of Public Convenience and Necessity (CPCN) upon approval of a CA or CPCN by the Commission.

[2] Wis. Stat. § 196.20(9) ("The commission shall ensure in rate-making orders that a public utility recovers from its ratepayers reasonable amounts that the public utility spends on pension and other post-employment benefit costs. If requested by the public utility, the commission shall prescribe escrow accounting treatment for the recovery of public utility expenditures related to pension and other post-employment benefit costs.").

A. This request is consistent with the request included in the previous three settlement dockets (dockets 3270-UR-122, 3270-UR-123 and 3270-UR-124) in which the Commission has authorized the accrual through December 31, 2023. Therefore, the Commission may wish to consider extending this authorization through December 31, 2025.

Q. Please discuss the COVID-19 deferral.

A. The applicant is seeking Commission approval to amortize the deferred COVID-19 regulatory asset authorized in docket 5-AF-105[3] over a two-year period of 2024 through 2025. The Commission may wish to consider authorizing the applicant's request. Conversely, in dockets 6690-UR-127[4] and 5-UR-110[5], Wisconsin Public Service Corporation (WPSC), Wisconsin Electric Power Company (WEPCO), and Wisconsin Gas (WG) agreed to write-off their respective COVID-19 deferred amounts as part of their partial settlement agreements. The Commission ultimately rejected the settlements in both proceedings, but determined it was reasonable to require WPSC, WEPCO, and WG to write off their respective COVID-19 regulatory deferrals over a two-year period. Therefore, consistent with the decisions in dockets 6690-UR-127 and 5-UR-110, the Commission may also wish to consider if it is reasonable to require the applicant to write off the entirety of the COVID-19 regulatory asset in this proceeding.

[3] Order, authorized March 24, 2020 (PSC REF#: 386353); Supplemental Order – First, authorized May 14, 2020 (PSC REF#: 389500); Supplemental Order – Second, authorized August 28, 2020 (PSC REF#: 39608); Supplemental Order – Third, authorized December 22, 2021 (PSC REF#: 427781).
[4] Final Decision, dated December 22, 2022 (PSC REF#: 455196)
[5] Final Decision, dated December 29, 2022 (PSC REF#: 455451)

Q. Please discuss the Wisconsin Pollutant Discharge Elimination System (WPDES) settlement payments that are included in the applicant's Elm Road Generation Station (ERGS) escrow.

A. In docket 5-UR-107, Wisconsin Electric Power Company's last full rate case, the Commission determined that inclusion of the settlement payments in rates would be reviewed on a rate-case-by-rate-case basis. The applicant has included its current obligated WPDES settlement payment of $333,200 in its revenue requirement. Commission staff has not proposed an adjustment related to this payment. The applicant is requesting to continue the practice of utilizing escrow accounting treatment for ERGS.

Q. Is there anything you would like addressed regarding the Infrastructure Investment Jobs Act of 2021?

A. Yes. On November 15, 2021, the Infrastructure Investment Jobs Act of 2021 also known as the Bipartisan Infrastructure Law (Act) was signed into law. At this time, it is unknown if there would be any potential impacts resulting from the Act. Therefore, the Commission may wish to consider requiring the applicant to defer, with or without carrying costs, any impacts of the Act to a future rate proceeding. This would ensure both the applicant and its customers remain whole as a deferral would capture any cost increases or savings.

Q. Is there anything you would like addressed regarding the Inflation Reduction Act (IRA) of 2022?

A. Yes. In its December 15, 2022 Final Decision[6], the Commission authorized the applicant to defer any impacts related to the IRA with carrying costs at the applicant's short-term

[6] Final Decision, dated December 15, 2022 (PSC REF#: 454855)

debt rate. At the time of the Final Decision, it was unknown if there would be any potential impacts resulting from the IRA and the deferral would ensure both the applicant and its customers remain whole as a deferral would capture any cost increases or savings. The IRA in addition to modifying or adding Investment Tax Credits and Production Tax Credits (PTC) for solar and battery storage, the IRA also allows a transferability option to allow utilities to transfer the credit to another taxpayer thereby potentially allowing a utility to monetize the credits faster depending on the tax position of the utility. In applicant witness Stacy Rhone's direct testimony she indicated that the applicant is requesting authorization to escrow any revenue requirement impact related to the transferability of tax credits as well as to escrow any PTC amounts related to the solar projects in which the applicant elects PTC treatment. (Direct-MGE-Rhone-8.) At of the time of audit completion, the potential impacts resulting from the IRA are still unknown as the Internal Revenue Service is still issuing guidance and a market for transferability is still being established. The Commission may wish to consider continuing its deferral authorization of any impacts related to the IRA, with carrying costs at the short-term debt rate, until the applicant's next rate proceeding to capture any cost increases or savings, thus ensuring both the applicant and its customers remain whole.

Q. Please discuss the 2022 fuel reconciliation in docket 3270-FR-2022.

A. In the 2022 fuel reconciliation in docket 3270-FR-2022, the Commission found it reasonable for the applicant to recover $8,742,566, plus interest, for the 2022 under-collection of monitored fuel costs over the period of October 1, 2023, through September 30, 2024. The surcharge is to be based on the 2023 sales forecast authorized by the Commission in docket 3270-UR-124 during the period from October 1, 2023, through December 31, 2023, and based on the 2024 sales forecast to be authorized by the Commission in this proceeding during the period from January 1, 2024, through September 30, 2024. In its decision, the Commission found it reasonable to reevaluate and alter the collection surcharge rate for 2024 as necessary to ensure full recovery of the 2022 fuel cost deferral balance spread out over the accepted sales forecast for the remaining months of 2024. The impact of the change to the 2024 surcharge will be discussed in the direct testimony of Mr. Eiter.

Q. Is there anything else you would like to discuss?

A. Yes, a review was done on costs associated with tree trimming. Commission staff used the actual 3-year average of 2020, 2021 and 2022 plus inflation to determine the reasonableness of the 2024 and 2025 test year estimates. Based on this analysis, Commission staff found the budgeted amounts included in the revenue requirement of $2.9 million for the 2024 and 2025 test years was comparable to that average. Commission staff made no adjustments for tree trimming.

Q. Will you be providing any delayed exhibits?

A. Yes, I will be providing two additional exhibits titled Ex.-PSC-Public Comments, which will include the public comments received in this proceeding, and Ex.-PSC-Data-Request Responses, which will include all data requests issued by Commission staff, along with the responses to those requests.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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