Public Service Commission of Wisconsin
Direct Testimony of Jill Rose
Division of Energy Regulation and Analysis

Wisconsin Power and Light Company
Docket 6680-UR-124

September 5, 2023

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

A. My name is Jill M. Rose and 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-Eau Claire in 2002, receiving a Bachelor of Business Administration degree with a major in Accounting. Prior to accepting my position with the Commission, I worked at a public accounting firm for three years, where I primarily provided assurance services to municipal-owned utilities. After that, I worked as a senior accountant at an investor-owned utility, where I primarily prepared quarterly and annual Security and Exchange Commission reports. I have been employed as a Public Utility Auditor by the Commission since June 2022.

Q. Have you previously testified in proceedings before the Commission?

A. Yes.

Q. Please explain the purpose of this proceeding and describe Wisconsin Power and Light 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 its natural gas rate effective January 1, 2024. The applicant's filing indicated a total company revenue deficiency of $117.0 million, or 7.9 percent for 2024 electric operations with a Wisconsin jurisdictional revenue deficiency of $110.9 million, or 8.4 percent. The applicant's filing also indicated a total company revenue deficiency of $183.7 million, or 12.4 percent for 2025 electric operations with a Wisconsin jurisdictional revenue deficiency of $181.8 million, or 13.8 percent. For natural gas operations, the applicant's filing indicated a revenue deficiency of $16.5 million, or 6.3 percent for 2024. For 2025, the applicant proposed to maintain the 2024 retail natural gas rates. The applicant's requested rate increase reflects a 10.0 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 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-Rose-1 is entitled *Wisconsin Power and Light Company Docket 6680-UR-124 Estimated Income Statement, Average Net Investment Rate Base, and Revenue Requirement for the Electric and Natural Gas Operations for the Test-Year 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 operations.

A. Based on its audit, Commission staff estimates that at the total company level, an $82.7 million increase or 5.63 percent is needed for 2024 electric operations with a Wisconsin jurisdictional increase of $74.3 million or 5.65 percent. A $137.5 million increase or 9.28 percent is needed for 2025 electric operations with a Wisconsin jurisdictional increase of $135.8 million or 10.29 percent. The 2024 and 2025 electric revenue deficiencies are based on a 9.70 percent return on common stock equity. The return on common equity is discussed in the direct testimony of Commission staff witness Justin Adams.

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

A. Based on its audit, Commission staff estimates that at the total company level, a $13.6 million increase or 5.44 percent is needed for 2024 natural gas operations. A $13.6 million increase or 5.35 percent is needed for 2025 natural gas operations. The 2024 and 2025 natural gas revenue deficiencies are based on a 9.70 percent return on common stock equity. The return on common equity is discussed in the direct testimony Mr. Adams.

Q. Please explain Schedules 1 and 3 of Ex.-PSC-Rose-1.

A. Schedules 1 and 2, columns (a) through (c), show the applicant's 2024 test-year filed income statement and average net investment rate base for total company electric operations compared with Commission staff estimates. Columns (d) through (f) show the same information for Wisconsin retail electric operations.

Q. Please explain Schedules 2 and 4 of Ex.-PSC-Rose-1.

A. Schedules 2 and 4 show the applicant's 2024 and 2025 test-year filed income statement and average net investment rate base for total company natural gas operations compared with Commission staff estimates.

Q. Please explain Schedules 5 and 6 of Ex.-PSC-Rose-1.

A. Schedules 5 and 6 show Commission staff's individual adjustments to the applicant's filed electric and natural gas utilities estimated income statements and average net investment rate base for the 2024 and 2025 test years, respectively. These adjustments are shown at the total company level.

Q. Please explain Adjustment 1 on Schedules 5 and 6.

A. Adjustment 1 reflects an increase to the electric sales residential rate class, increasing the sales forecast by 1,419,957 kilowatt hours (kWh) and 23,577,153 kWh for the 2024 and 2025 test years, respectively. This increase in kWh resulted in an increase of $348,000 and $3.7 million to the sales revenue forecast for the 2024 and 2025 test years, respectively. 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 of 0.93 percent to forecast the 2024 and 2025 test-year total. The remaining portion of the sales adjustment are changes in electric wholesale driven primarily by changes to the fuel costs as discussed in the direct testimony of Commission staff witness Andrew Field.

Q. Please explain Adjustments 2 and 3 on Schedules 5 and 6.

A. Adjustment 2 reflects the impact to market energy sales. Adjustment 3 reflects Commission staff's decrease to fuel and purchased power expense. Both adjustments will be discussed in the direct testimony of Mr. Field.

Q. Please explain Adjustment 4 on Schedules 5 and 6.

A. Adjustment 4 includes transmission expenses, which decreased by $692,000. Included in this adjustment is a decrease of $677,000 in 2024 and $35,000 in 2025 based on updated Midcontinent Independent System Operator, Inc. (MISO) Schedule 26 and Schedule 26A rates that were revised by MISO on June 9, 2023. Transmission adjustments will be further discussed in the direct testimony of Mr. Field. The remaining amount of the adjustments relates to decreased labor costs, which will be discussed later in my testimony.

Q. Please explain Adjustment 5 on Schedules 5 and 6.

A. Commission staff made several adjustments relating to the applicant's overall operations and maintenance (O&M) expenses. Commission staff increased electric O&M by $1.2 million in 2024 and $1.5 million in 2025, which reflects the removal of the applicant's proposed sale of West Riverside Energy Center Option 2 (West Riverside 2) to Wisconsin Electric Power Company (WEPCO). The proposed sale has not yet been authorized by the Commission and, as such, is not included in revenue requirement as of the date of this testimony.

Commission staff adjusted electric O&M for maintenance expenses of various operating plants. The adjustments were based on an inflated three-year average of non-labor O&M expense over a three-year average of historical megawatt hours. The Forward Wind farm adjustment included a decrease of $507,000 and $462,000 for the

2024 and 2025 test years, respectively. The Kossuth Wind Farm adjustment included a decrease of $498,000 and $487,000 for the 2024 and 2025 test years, respectively.

Commission staff decreased electric O&M by $607,000 and $613,000 in 2024 and 2025, respectively, and decreased natural gas O&M by $251,000 and $253,000 in 2024 and 2025, respectively, relating to industry association dues and advertising expenses. The adjustments for industry association dues and advertising expenses are consistent with past Commission staff practice.

Commission staff decreased electric O&M by $2.0 million and $7.5 million in 2024 and 2025, respectively, for capacity expenses associated with the upgrades to the Sheboygan Falls Energy Facility proposed in docket 6680-CE-186. The proposed upgrades have not yet been authorized by the Commission and, as such, are not included in revenue requirement as of the date of this testimony.

Commission staff decreased electric O&M by $13,000 in both 2024 and 2025 related to the true-up of the farm wiring escrow due to the applicant using an incorrect amortization amount for 2023 in its calculation.

Commission staff removed 100 percent of incentive compensation based on historic Commission practice. This adjustment decreased electric O&M by $7.6 million and natural gas O&M by $1.3 million for both 2024 and 2025 test years. As discussed in the direct testimony of applicant witness Amanda Yocum (Direct-WPL-Yocum), the applicant provides compensation to employees in two parts: base pay and an annual incentive. Together they allow the applicant to provide competitive, market-based compensation to employees. The applicant delivers variable incentive compensation through three plans covering all non-bargaining employees: 1) Employee Short-term

Incentive Plan covers non-bargaining unit, non-exempt, exempt, and non-upper management employees; 2) Director Short-term Incentive Plan covers non-bargaining unit upper management up to executives; and 3) Executive Short-term Incentive Plan covers all executives at the Vice President level and above.

These incentive plans share common operational and financial goals. Operational metrics comprise 30 percent of the plan weight and include customer impact (customer satisfaction and reliability of energy), environmental (reduction in emissions), and diversity, equity, and inclusion. The financial metric is earnings-per-share. All non-bargaining employees are eligible for incentive compensation; however, that does not necessarily mean all eligible employees earn or receive incentive compensation. While employees from executive level to administrative level are eligible, an employee only receives incentive pay when the applicant and the employee perform at defined levels.

Compensation is targeted to the median market level (50^{th} percentile), determined through the analysis of data provided by reputable firms such as Willis Towers Watson, Mercer, and Hewitt and Associates. The applicant sets both base and incentive compensation levels through extensive analysis of the competitive market for each position in the company. Data on market levels of base pay and incentive pay are gathered and used to determine each position's appropriate total compensation level.

It has been Commission practice to exclude incentive plans from the revenue requirement when such plans are based primarily on financial results (*e.g.*, prevailing stock price, earnings per share, or achieving a specified net income or return on investment, etc.). The Commission has determined such plans most directly benefit the utility shareholders who should therefore bear the cost of the plan. Ratepayers should not bear these costs.

Commission staff decreased electric O&M by $700,000 in 2025 relating to the Edgewater battery energy storage system (BESS) project as identified in docket 6680-CE-184, $1.0 million in 2025 relating to the Neenah Energy Facility natural gas turbine project as identified in docket 6680-CE-185, and $1.0 million in 2025 relating to the Sheboygan Falls Energy Facility natural gas turbine project as identified in docket 6680-CE-186. These proposed projects have not yet been authorized by the Commission and as such are not included in revenue requirement as of the date of this testimony.

Commission staff increased electric O&M by $85,000 in 2025 to correct a formula error that was corrected by applicant witness Neil Michek in his revised exhibit Ex.-WPL-Michek-1r.

Smart Hours Program costs were reclassified to a different O&M account by Commission staff. The removal of the Smart Hours Program from the conservation escrow budget will be discussed in the direct testimony of Commission staff witness Mitchell Horrie.

Q. Please explain Adjustment 6 on Schedules 5 and 6.

A. Adjustment 6 reflects an increase to regulatory asset amortization of $2.15 million for both 2024 and 2025 for the deferral of the reactive power resources' transmission expense offset as approved by the Commission in its Final Decision in docket 5-AF-108. (PSC REF#: 474392.)

Q. Please explain Adjustment 7 on Schedules 5 and 6.

A. Adjustment 7 reflects the depreciation expense impacts resulting from plant adjustments that are discussed below.

Q. Please explain Adjustment 8 on Schedules 5 and 6.

A. Adjustment 8 reflects Commission staff's decrease to Taxes Other Than Income Taxes that are a result of the adjustments to payroll and electric sales.

Q. Please explain Adjustments 9, 10, and 11 on Schedules 5 and 6.

A. Adjustments 9, 10, and 11 reflect Commission staff's change to electric and natural gas State and Federal Income Taxes and Deferred Tax Expense. These adjustments are a flow through based on all other Commission staff adjustments.

Q. Please discuss Commission staff's payroll adjustments.

A. The payroll adjustment is comprised of multiple components. First, Commission staff reduced the filed 2024 and 2025 regular full-time employees (FTE). Based on actual May 2023 levels and the average vacancy rates over 2022 and 2023, the analysis resulted in a reduction of 34 FTEs for 2024 and 2025. The adjustment resulted in decreases of $1.3 million for electric operations and $175,000 for natural gas operations for 2024 test year, as well as decreases of $1.3 million for electric operations and $191,000 for natural gas operations for 2025 test year.

The second labor adjustment relates to the level of wage increase included in the test-year payroll estimates. Wage rates for the union employees were based on escalation rates embedded in any collective bargaining agreements. The wages for the non-union employees were held to the 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 adjustment resulted in decreases of $157,000 for electric operations and $21,000 for natural gas operations for 2024 test year, as well as decreases of $404,000 for electric operations and $59,000 for natural gas operations for 2025 test year.

The total of all labor adjustments resulted in O&M reductions of $1.4 million for electric operations and $196,000 for natural gas operations for 2024 test year, and $1.7 million for electric operations and $250,000 for natural gas operations for 2025 test year.

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, Commission staff adjusted the 2022 balance to reflect year-end actuals for plant in service, CWIP, and accumulated depreciation rather than the estimated 2022 year-end balances used by the applicant. Next, after isolating discrete projects from the analysis, Commission staff applied historic budget-to-actual percentages to the remaining 2023, 2024, and 2025 electric and natural gas expenditures and plant additions, and applied a three-year average actuals for the electric and natural gas retirements. The adjustments reflect that based on a three-year average budget to actual analysis, the applicant has historically forecasted higher construction expenditures than what has actually occurred, forecasted a faster entry of plant in service than what has actually occurred, and forecasted retirements at a much lower amount than what has actually occurred.

Finally, at the time of audit completion the Commission had not yet issued authorization for Edgewater BESS as identified in docket 6680-CE-184, construction on a combustion turbine in Neenah as identified in docket 6680-CE-185, and the sale of the second tranche of West Riverside. Therefore, Commission staff disallowed the projects from the applicant's electric operations. These capital projects will be discussed later in my testimony.

The impact of the above discussed adjustments results in a $20.9 million increase to the 2024 total company average plant in service for electric, $9.6 million for Wisconsin jurisdiction; and a $138.5 million reduction in 2025 total company average plant in service for electric, $129.9 million for Wisconsin jurisdiction. The adjustments also resulted in a reduction to the natural gas average plant in service for the 2024 and 2025 test years of $0.9 million and a $1.4 million, respectively. Based on the above plant adjustments, the 2024 total company electric CWIP balance increased $31.7 million, $31.6 million for Wisconsin jurisdictional and for 2025 the total company balance increased $42.8 million, $42.7 million for Wisconsin jurisdictional.

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

A. Based on the above plant adjustments, total company electric accumulated depreciation was decreased $18.5 million in 2024, $17.2 million Wisconsin jurisdiction. For 2025 total company electric accumulated depreciation was decreased $34.8 million in 2025, $31.9 million Wisconsin jurisdiction. Accumulated depreciation for natural gas was decreased $0.5 million in 2024 and $0.8 million in 2025. Additionally, the above plant adjustments increased total company electric deferred tax $2.1 million in 2024; $1.6 million Wisconsin jurisdiction, and increased 2025 total company electric deferred tax $5.4 million, $4.2 million Wisconsin jurisdiction. For natural gas operations deferred tax decreased $0.5 million in 2024 and $0.8 million in 2025. Also, due to the above-discussed plant adjustments, in 2025 Wisconsin jurisdictional electric materials and supplies increased by $0.01 million and Wisconsin jurisdictional electric net retired plant increased by $0.09 million.

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

A. In docket 6680-CE-184,[1] the applicant applied for Commission approval to construct, own, and operate a 99 MW battery energy storage system located at the applicant's Edgewater Generating Station (Edgewater BESS), with an estimated in-service date of June 2025. As this docket has not yet been authorized by the Commission, Commission staff removed it from the 2025 test-year plant estimates. Should the Commission approve this project prior to the discussion of record in this proceeding, as identified in Ex.-PSC-Data Request-Responses-PSCW-KBS-2.2, the 2025 total company revenue requirement impact would be $3.5 million, $3.0 million Wisconsin jurisdiction.

In docket 6680-CE-185,[2] the applicant applied for Commission approval to construct capacity and efficiency improvements at the Neenah Generating Stations Units 1 and 2 (Neenah), citing a shortfall of capacity and energy resources. The applicant is advancing the project with a planned commercial operation date of no later than November 2025. As this docket has not yet been authorized by the Commission, Commission staff removed it from the 2025 test-year plant estimates. Should the Commission approve this project prior to the discussion of record in this proceeding, as

[1] 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. (PSC REF# 458348 public, PSC REF# 458347 confidential.)

[2] Application of Wisconsin Power and Light Company for a Certificate of Authority to Construct Capacity and Efficiency Improvements at the Neenah Generating Station Units 1 and 2, in the City of Neenah, Winnebago County, Wisconsin. (PSC REF# 469672 public, PSC REF# 469671 confidential.)

identified in Ex.-PSC-Data Request-Responses-PSCW-KBS-2.3, the 2025 total company revenue requirement impact would be $3.0 million, $2.5 million Wisconsin jurisdiction.

Finally, in docket 5-BS-265 the Commission authorized the sale and purchase of ownership interests in the West Riverside Energy Center (West Riverside).[3] In this proceeding, the applicant included the sale of a second option of West Riverside. As of audit completion, the applicant had not yet sought approval, nor has the Commission granted approval regarding this sale. Therefore, Commission staff removed the sale impacts pending Commission authorization. Should the Commission approve the sale prior to the open meeting in this proceeding, as identified in Ex.-PSC-Data Request-Responses-PSCW-KBS-2.7 the total company electric revenue requirement impact in 2024 would be an increase of approximately $3.9 million, $3.1 million Wisconsin jurisdiction; and a total company impact of $7.9 million, $7.5 million Wisconsin jurisdiction in 2025.

If the Commission does not include the sale of the second option of West Riverside in this rate proceeding, the applicant has requested the Commission authorize deferral accounting treatment for the revenue requirement impact including sale proceeds, operating costs, and depreciation 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 explain Schedules 7 and 8 of Ex.-PSC-Rose-1.

[3] Interim Order, signed and dated December 22, 2022 (PSC REF#: 455194) and Final Decision signed and dated March 13, 2023 (PSC REF#: 461711).

A. Schedules 7 and 8 are Commission staff's calculation of the weighted cost of capital at various returns on common stock equity for 2024 and 2025, respectively. Commission staff's revenue requirement in this proceeding was calculated using a 9.70 percent return on common stock equity, which resulted in a weighted cost of capital of 7.37 percent for 2024 and 2025. 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. Adams' direct testimony.

Q. Please explain Schedules 9, 10, 11, and 12 of Ex.-PSC-Rose-1.

A. Schedules 9 and 10 show Commission staff's 2024 calculations of the required return on net investment rate base for the applicant's electric utility operations and natural gas utility operations, respectively, at various rates of return on common equity. Schedules 11 and 12 show the same information for 2025.

Q. Please explain Schedules 13 and 14 of Ex.-PSC-Rose-1.

A. Schedules 13 and 14 show the development of the electric revenue deficiency at the total company level and the natural gas revenue deficiency, respectively, at various rates of return on common stock equity for the test year ending December 31, 2024. Schedule 13 uses a blended rate when calculating the Required Return on Average Net Investment Rate Base–Other at the total company level using both the Wisconsin Retail rate of return (ROR) and Wisconsin Federal Energy Regulatory Commission (FERC) ROR to calculate the total company ROR. Based on a 9.70 percent return on common equity, the electric revenue deficiency is $82.7 million, and the natural gas revenue deficiency is $13.6 million. A change of 10 basis points in the return on equity would adjust electric revenue requirement by approximately $4.2 million and the natural gas revenue requirement by approximately $353,000.

Q. Please explain Schedules 15 and 16 of Ex.-PSC-Rose-1.

A. Schedules 15 and 16 show the development of the electric revenue deficiency at the total company level and the natural gas revenue deficiency, respectively, at various rates of return on common stock equity for the test year ending December 31, 2025. Schedule 15 uses a blended rate when calculating the Required Return on Average Net Investment Rate Base–Other at the total company level using both the Wisconsin Retail ROR and Wisconsin FERC ROR to calculate the total company ROR. Schedule 15 also uses a different ROR related to Edgewater Unit 5 due to levelized cost recovery as authorized in its last rate settlement in docket 6680-UR-123[4] and as discussed in the direct testimony of Mr. Adams. Based on a 9.70 percent return on common equity, the electric revenue deficiency is $137.5 million, and the natural gas revenue deficiency is $13.6 million. A change of 10 basis points in the return on equity would adjust electric revenue requirement by approximately $4.2 million and the natural gas revenue requirement by approximately $366,000.

Q. Please explain Schedule 17 of Ex.-PSC-Rose-1.

A. Schedule 17 shows Commission staff's calculation for the percent of utility investment rate base plus CWIP to capital appliable primarily to utility operations.

Q. Please explain Schedule 18 of Ex.-PSC-Rose-1.

A. Schedule 18 is a listing of the deferred accounts previously approved for the applicant and the associated amortization expense.

[4] Final Decision signed and dated December 22, 2021. (PSC REF#: 455045.)

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 charges to expense by an unregulated enterprise in accordance with Generally Accepted Accounting Principles. These differences usually relate to the timing of the recognitions 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. Do you have any comments relating to the amortization requests?

A. Yes, while I won't cover all of the amortizations, I would like to highlight a few. First, the applicant is seeking Commission approval to amortize the deferred COVID-19 regulatory asset authorized in docket 5-AF-105[5] over the two-year period of 2024 through 2025. The Commission may wish to consider authorizing the applicant's request. Conversely, in dockets 6690-UR-127[6] and 5-UR-110[7], Wisconsin Public Service Corporation (WPSC), WEPCO, and Wisconsin Gas LLC (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

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[5] 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.)
[6] Final Decision, dated December 22, 2022. (PSC REF#: 455196.)
[7] Final Decision, dated December 29, 2022. (PSC REF# 455451.)

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.

Second, the applicant is requesting to maintain escrow accounting treatment for conservation costs through the 2024 and 2025 test-year periods. Estimated annual conservation spending for 2024 electric operations are $15.8 million plus the overspent amount of $1.1 million, for a total amortization amount of $16.9 million. For 2024 natural gas operations, the estimated annual conservation spending is $3.7 million less the underspent amount of $230,000, for a total amortization amount of $3.4 million. Estimated annual conservation spending for 2025 electric operations are $16.2 million plus the overspent amount of $548,000 for a total amortization amount of $16.8 million. For 2025 natural gas operations, the estimated annual conservation spending is $4.0 million less the underspent amount of $629,000 for a total amortization amount of $3.4 million. Conservation spending will be discussed in the direct testimony of Mr. Horrie. Given the request is consistent with past Commission practice, the Commission may wish to consider granting the requested treatment.

Third, the applicant is requesting to maintain escrow accounting treatment for farm wiring costs through the 2024 and 2025 test-year periods based on an estimated spend of $2.1 million and $2.2 million for 2024 and 2025, respectively.

Fourth, the applicant is seeking Commission approval to amortize $2.15 million for both 2024 and 2025 for the deferral of the Schedule 2 reactive power resources' transmission expense offset as identified in the Commission's Final Decision in docket 5-AF-108. (PSC REF#: 474392.)

Q. Please discuss the Capacity Expense escrow mechanism.

A. The applicant is requesting escrow treatment for capacity purchase costs. This escrow mechanism would track actual capacity purchase costs as compared to forecasted capacity purchase costs and defer the difference to a regulatory asset or regulatory liability account to be addressed in a future rate proceeding. The mechanism would only address the retail share of capacity purchase costs. The dollar amount impact if the Commission would authorize escrow treatment is unknown. Currently, no amounts are included in the applicant's amortization schedule relating to this requested escrow. Capacity Expense escrow treatment will be discussed in the direct testimony of Mr. Field.

Q. Please discuss the proposed deferral treatment for Power Partnership.

A. The applicant is requesting deferral treatment for Power Partnership, as discussed in the direct testimony of Mr. Michek (Direct-WPL-Michek-58). The applicant is proposing a transition from net energy metering to a new distributed energy billing program that the applicant calls Power Partnership. One component of the proposed Power Partnership program will provide participating customers a credit called the System Asset Value Credit. The applicant proposes that the full System Asset Value Credit be accounted for as a purchased power expense on the applicant's regulatory books. The Power Partnership program will be discussed in the direct testimony of Commission staff witness Tyler Meulemans.

Because this is a new offering, the applicant is uncertain about the number of customers that ultimately will be served under the Power Partnership tariff. To ensure that all customers pay based upon actual value provided, the applicant proposes to defer the full total System Asset Value Credit incurred and include the costs in a future proceeding as a component of fuel costs. Once participation levels are more well known, the applicant would forecast the test-year level of activity and any variance would be subject to the fuel rules. Given the unknowns, Commission staff does not have concerns with the applicant's deferral proposal. Therefore, if this program is approved, the Commission may wish to consider granting the requested treatment.

Q. The applicant is requesting to continue escrow accounting treatment for transmission costs including American Transmission Company LLC and MISO 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. Please identify existing escrow and deferral treatment that the applicant proposes to discontinue in this proceeding.

A. The applicant proposes to discontinue the Late Payment Fee and Credit Card Fee escrow mechanisms because those programs have been in place for a few years, the program costs or revenue have generally stabilized, and the level of variability is relatively immaterial in comparison to the other escrows mechanisms. The applicant also proposes to discontinue the solar project revenue requirement deferral after 2023 as the applicant expects the projects to be completed in 2023 or early 2024. Commission staff recommends if the Commission would authorize the applicant's request to discontinue the escrow accounting treatment of these costs, the Commission may wish to require the applicant to undertake a final true-up of these costs in the applicant's next rate proceeding to capture any final activity.

Q. Please discuss the applicant's proposed accounting treatment for the retirement of Edgewater Unit 5 and Columbia Units 1 and 2.

A. As identified in the direct testimony of Mr. Michek (Direct-WPL-Michek-59), the applicant is requesting a new deferral accounting treatment if the planned timing of the retirement of Edgewater Unit 5 or Columbia Units 1 and 2 changes from the assumptions used in the applicant's filing of Edgewater Unit 5 retiring in May 2025 and Columbia Units 1 and 2 retiring mid-2026. The Commission may wish to consider this request as the request is similar to the request authorized by the Commission in its Final Decision in docket 5-UR-110. (PSC REF#: 455451.) In that proceeding, the Commission found it reasonable to require deferral accounting treatment to capture the differences between estimated and actual revenue requirement impacts associated with retiring Oak Creek Power Plant Units 5 and 6 resulting from a change in the unit's retirement date. The applicant's proposed request for this deferral, including the corresponding accounting entries and continued net book value recovery is consistent with Commission's Final Decision in docket 6680-UR-123. (PSC REF#: 427760.) Based on this past decision, the Commission could find it reasonable to grant these requests.

Q. Is there anything you would like addressed regarding the Infrastructure Investment Jobs Act (IIJA) of 2021 and the Inflation Reduction Act (IRA) of 2022?

A. Yes. On November 15, 2021, the IIJA, also known as the Bipartisan Infrastructure Law, was signed into law and on August 16, 2022, the IRA was signed into law. At this time, it is unknown if there would be any potential impacts resulting from either the IIJA or IRA. In addition to modifying or adding Investment Tax Credits and Production Tax Credits (PTC) for solar and battery storage, the IRA also includes 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. 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. Therefore, the Commission may wish to consider requiring the applicant to defer, with or without carrying costs, any impacts of the IIJA or IRA 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. Do you have any additional comments on PTC Escrows?

A. Yes. In Mr. Michek's direct testimony (Direct-WPL-Michek-56), he identified that in addition to requesting escrow accounting treatment for the PTCs for solar and battery storage that were created or modified as part of the IRA, the applicant is also requesting escrow accounting treatment for PTCs associated with existing wind generation that are still eligible for PTCs such as the Kossuth Wind Farm. While Commission staff acknowledges that there is a potential risk relating to existing PTCs where the amount estimated by the applicant and included in revenue requirement could end up being different compared to actual, this is a business risk that the applicant is currently undertaking. The Commission may wish to consider denying this deferral request since unlike the ITC and PTCs associated with the IRA where all of the potential impacts and guidance are still unknown, the existing PTCs for wind generation have already been established.

Q. Please discuss the 2022 fuel reconciliation in docket 6680-FR-2022.

A. In the 2022 fuel reconciliation in docket 6680-FR-2022, the Commission found it reasonable for the applicant to recover $116,783,859, plus interest, for the 2022 under-collection of monitored fuel costs over the period of October 1, 2023 through December 30, 2025. The surcharge is to be based on the 2023 sales forecast authorized by the Commission in docket 6680-UR-123 during the period from October 1, 2023 through December 31, 2023, and based on the respective 2024 and 2025 sales forecast to be authorized by the Commission in this proceeding during the period from January 1, 2024 through December 30, 2024, and January 1, 2025 through December 31, 2025. In its decision, the Commission found it reasonable to reevaluate and alter the collection surcharge rate for 2024 and 2025 as necessary to ensure full recovery of the 2022 fuel cost deferral balance spread out over the accepted sales forecast for the corresponding years. The impact of the 2024 and 2025 surcharge will be discussed in the direct testimony of Commission staff witness Mr. Meulemans.

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 4-year average of 2019 through 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 $7.3 million and $7.5 million for 2024 and 2025, respectively, was comparable to that average. Commission staff made no adjustments for tree trimming.

Q. Will you be providing any delayed exhibits?

A. Yes, I plan on 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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