**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

PRE-FILED REBUTTAL TESTIMONY OF

NEIL E. MICHEK

FOR

WISCONSIN POWER AND LIGHT COMPANY

September 19, 2023

Q. Please state your name and business address.

A. My name is Neil E. Michek. My business address is 4902 North Biltmore Lane, Madison, Wisconsin 53718.

Q. Are you the same Neil E. Michek who submitted direct testimony in this docket on behalf of Wisconsin Power and Light Company ("WPL")?

A. Yes, I am.

Q. Please briefly describe the purpose of your rebuttal testimony.

A. My rebuttal testimony responds to various aspects the direct testimonies of Public Service Commission of Wisconsin ("PSCW" or "Commission") staff witnesses Jill M. Rose, Justin Adams, and Andrew J. Field, Citizens' Utility Board ("CUB") witnesses Corey S.J. Singletary, and Steven Kihm, Wisconsin Industrial Energy Group ("WIEG") witness Lane Kollen, Clean Wisconsin ("CW") witnesses Ronald L. Lehr and Eric Borden, Vote Solar and Sierra Club witness William D. Kenworthy, Blacks for Political Social and Political Action ("BPSA") and Walmart witness Alex J Kronauer. Topics addressed generally include, but are not limited to:

- Proposed revenue requirement adjustments identified primarily in the testimony of Commission staff witness Rose.
- Discussions regarding an Earnings Sharing Mechanism ("ESM") by Commission staff witness Adams and CUB witness Singletary.
- Discussions regarding the cost recovery of the Edgewater Unit 5 generating unit after its retirement by CUB witness Singletary and WIEG witness Kollen.
- Discussion of existing or proposed deferrals and escrows by Commission staff witnesses Rose and Field, CUB witness Singletary, CW witness Borden, and WIEG witness Kollen.
- Discussion of return on equity ("ROE") by CUB witness Kihm Discussion of current return on Construction Work in Progress ("CWIP") by Walmart witness Kronauer.
- Discussion of the Inflation Reduction Act ("IRA") and impacts on production tax credits ("PTCs") and investment tax credits ("ITCs") by CW witness Lehr.
- Brief discussion of the proposed PIP and geo-based targeted energy efficiency program cost recovery by BPSA witness Colton.

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

A. Yes, I am sponsoring six additional exhibits:

- Ex.-WPL-Michek-12: This exhibit is a copy of a Wisconsin Department of Revenue, Bureau of Economic Analysis report: Wisconsin Economic Forecast Update: May 2023
- Ex.-WPL-Michek-13: This exhibit compares WPL's actual average plant-in-service, and construction work-in-progress ("CWIP") balances subject to current return, as compared to the test year approved balances for the last three full calendar years, 2022, 2021, and 2020.
- Ex.-WPL-Michek-14: This exhibit provides calculations of the estimated revenue requirement impacts of a potential change in a wholesale power supply agreement with [redacted] These calculations are based upon WPL's filed revenue requirement calculations.
- Ex.-WPL-Michek-15: This exhibit is a copy of WPL's notice to the Commission of its decision to terminate the tax equity partnership related to certain solar projects in Docket Nos. 6680-CE-182, 6680-CE-183, 6680-AE-120, and 6680-AE-121.
- Ex.-WPL-Michek-16c: This exhibit is a copy of WPL's response to Commission staff Data Request No. PSCW-JMR-1.3.
- Ex.-WPL-Michek-17: This exhibit provides additional information about WPL's experience with increasing underground locate costs.

- Ex.-WPL-Michek-18: This exhibit is a copy of WPL's response to CW data request 4-CW-1.

Q. Please summarize the proposed Commission staff adjustments to WPL's filed electric utility revenue requirement that you will address in rebuttal.

A. My rebuttal testimony addresses the following Commission staff proposed adjustments identified by Commission staff witness Rose:

- Non-Labor O&M adjustments (not encompassed in other adjustments below or not addressed by other witnesses):
  - Maintenance expense adjustment related to the Kossuth and Forward Wind farms, and
  - Adjustments to exclude certain industry association dues and advertising.
- Labor costs, including adjustments related to proposed wage increase levels and vacancy rates.
- Excluding impacts of decisions that are currently or will be pending before the Commission in other dockets, including:
  - West Riverside Sale Tranche II,
  - Edgewater Battery Energy Storage System ("BESS"),
  - Neenah Capacity and Efficiency Project, and
  - Sheboygan Falls Capacity and Efficiency Project.
- Adjustments to WPL's construction work in progress ("CWIP"), plant in service, depreciation expense and accumulated

depreciation forecasts that Commission staff describes as "budget to actual" adjustments related to (1) plant additions relative to construction expenditures and (2) plant retirements relative to plant additions.

Q. Which of the Commission staff adjustments to WPL's filed electric utility revenue requirement are being primarily addressed in rebuttal by other WPL witnesses and which WPL witnesses are addressing those topics?

A. WPL witnesses Brett Behling and Amanda Blank address monitored fuel costs. WPL witness Andy Mendyk addresses Commission staff's proposed sales forecast adjustment. WPL witness Amanda Yocum responds to the adjustment related to incentive compensation. And WPL witnesses Ann Bulkley and Albert Rauch respond to testimony regarding ROE.

Q. Please summarize your understanding of Commission staff's proposed adjustments to O&M costs for the Kossuth and Forward wind farms.

A. My understanding is that Commission staff simply divided actual annual historical non-labor O&M costs at the facilities by actual generation output at the wind farm facilities to derive a three-year average of O&M per Megawatt hour ("MWh") and then applied the historical average O&M per MWh to the forecasted MWh of output for the facilities in the test years to derive a projected O&M level for the test years. Then Commission staff subtracted the resulting forecast from WPL's filed forecasts to derive the proposed adjustment.

Q. Does WPL agree with Commission staff's proposed adjustment and its method of determining an O&M forecast for these wind farms?

A. No, WPL disagrees with the proposed adjustment for various reasons. The method used by Commission staff assumes that O&M at these wind farms is entirely variable and linearly consistent on a dollar per MWh basis each year. Commission staff have not previously taken this approach to adjusting O&M for any of WPL's other generation resources, as it differs from how maintenance costs are actually incurred in practice. Variances in generation are generally driven by wind speeds, operational availability, transmission outages, and economic curtailments. These factors have a de minimis impact on O&M costs at the wind facilities. Maintenance costs will vary by year by facility at wind farms (just as they do at fossil fuel fired generation facilities) but are generally done to maintain availability of the wind farms regardless of generation output. Further, lease costs at the wind farms are at fixed costs that escalate through time completely independent of generation.

WPL's O&M forecast for the Kossuth wind farm is higher relative to history due in part due to the expiration of a parts warranty in 2022, which will place increased financial responsibility for maintenance activities on WPL. WPL has also noted increased unplanned maintenance due to blade issues.

With respect to the Forward wind farm, WPL relies upon the annual budgets prepared by the operator, Wisconsin Public Service Corporation. A majority of the O&M budget at the Forward wind farm are fixed based upon service contracts that include annual escalation.

In addition, this proposed adjustment seems to isolate in one subcomponent of overall production-related O&M that was projected to increase relative to history. If I apply the same methodology used by Commission staff to the total production related non-labor O&M in the 2024-2025 test year period, adjusting to exclude the O&M for new solar, the average O&M per MWh for the biennial test year period is lower than the prior three-year average.

Q. Please explain your understanding of PSCW staff's proposed adjustments related to industry association dues and advertising.

A. Commission staff's testimony doesn't provide much explanation other than making adjustment consistent with Commission staff practice. My understanding is that Commission staff adjusted WPL's forecasted advertising costs to a three-year average and inflated to the test year forecast that they supported. It is my understanding that Commission staff's review of past advertising costs and WPL's allocations or assignment of costs raised no concerns about WPL's above-the-line costs being consistent with the statutory limitations for inclusion in rates.

My understanding is that Commission staff's adjustments associated with disallowing community and economic development dues and disallowing a portion of certain industry association dues, and disallowing anything not discretely identifiable.

Q. Does WPL agree with Commission staff's proposed adjustments related to advertising expense and dues?

A. No, WPL does not agree with the adjustments. As stated above I'm not aware that Commission staff has identified any such advertisements as being inconsistent with Wisconsin statutes.

As it pertains to the adjustments associated with dues, WPL disagrees with complete or partial adjustments to various industry association dues. Industry associations provide opportunities to share and learn operational experiences and challenges as well as providing appropriate industry relationships in the event needed. As an example, WPL has been able to utilize its EEI membership to develop strategies and coordinate responses as to how to utilize the provisions of the IRA for the benefit of customers, with there being a substantial amount of proposed regulation being implemented in response to the legislation where a combined force of knowledgeable individuals with differing perspectives are extremely valuable in protecting WPL's customers interests. WPL's responses to Commission staff data requests summarized costs that that did not identify specific vendors or counterparties. Identifying those additional costs down to the vendor or counterparty level would have required material manual investigation of individual employee expense reports as well a deeper manual evaluation of transactions. I cannot immediately confirm, but expect, that much of those costs are related to individual professional dues.

WPL records all lobbying costs, including allocations of lobbying costs identified by the utility associations, as below-the-line and forecasts such costs consistently. With regards to disallowing community economic development costs, WPL also disagrees with the appropriateness of such adjustments. WPL strives to be an active partner with the communities it serves and considers those costs to be a normal, just, reasonable, and appropriate utility operations costs.

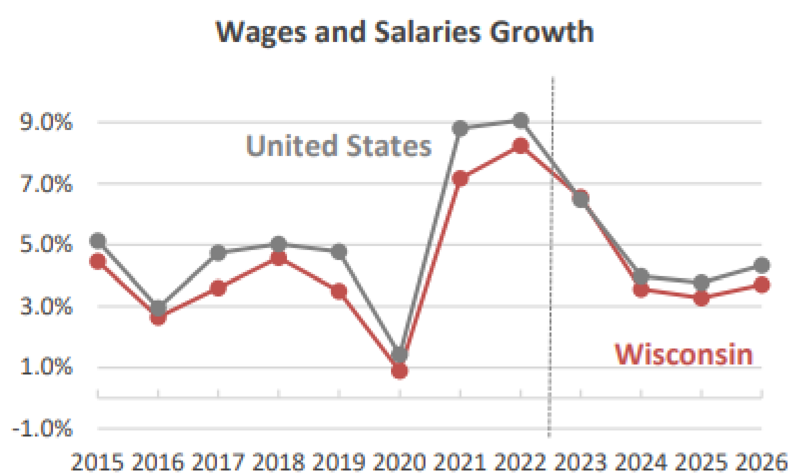
Q. Please summarize your understanding of Commission staffs' payroll-related adjustments.

A. My understanding is that Commission staff's payroll-related adjustment is based upon two factors. First, Commission staff adjusted the projected vacancy rates based on 2022 and 2023 information. Second, Commission staff also made an adjustment that reflected assumed wage increases for non-union employees based upon inflation rates of 2.5% for 2024 and 2.2% for 2025.

Q. Does WPL agree with Commission staff's proposed payroll adjustments?

A. No, WPL does not agree with the proposed payroll adjustments. As it pertains to the vacancy rate adjustment, WPL recognizes that recent history could support a higher vacancy rate than WPL forecasted. That is not surprising as, I understand, that the labor market was very tight during 2021 and 2022. However, I understand that WPL is starting to see the labor pool increase with increased numbers of applicants for open positions. Both WPL and Alliant Energy Corporate Services ("AECS") headcounts have increased throughout 2023 compared to year-end 2022. The test year forecasts of labor are based upon projections of the labor needed to provide safe utility service while recognizing that a vacancy level will always exist.

Commission staff's assumptions of 2.5% and 2.2% wage increases for 2024 and 2025 are inconsistent with current and projected labor market expectations. While I'm not a labor economist, information I've reviewed support wage increase expectations higher than WPL's assumption of 3%. In its Wisconsin Economic Forecast Update: May 2023, which is the most recent update, the Wisconsin Department of Revenue ("WDOR") forecast Wisconsin wage growth of 3.6% in 2024 and 3.3% in 2025, which follow a 6.6% increase in 2023. The following chart is from WDOR's May 2023 update, which is provided at Ex.-WPL-Michek-12.



Sources: Bureau of Economic Analysis and Wisconsin DOR (forecast).

This data demonstrates that WPL's assumed 3% wage increase assumptions are reasonable, if not conservative.

Q. Please summarize your understanding of the adjustments to exclude costs and benefits of projects or regulatory activities that are currently

or are anticipated to be pending before the Commission at the time of the decision in this proceeding.

A. Commission staff proposed adjustments to O&M, capacity costs, monitored fuel costs and benefits, and adjustments to rate base associated with various projects or regulatory proceedings that are currently pending or are anticipated to be pending before the Commission at the time of the Commission's decision in this proceeding. These projects include (1) the sale of a second tranche of West Riverside to Wisconsin Public Service Corporation and Madison Gas and Electric Company, (2) the proposed 99 MW BESS at Edgewater, and (3) the capacity and efficiency improvement projects at Neenah and Sheboygan Falls generating stations. The Commission staff's rationale for these adjustments is that the Commission has not yet approved these projects.

Q. Did WPL's filing in the proceeding recognize the current status of these projects?

A. Yes, WPL anticipated that the applications for those projects may remain pending before the Commission at the time the Commission issues its final decision in this rate review proceeding. WPL included the costs and benefits of these projects in the filing, though, as we anticipate that the Commission's decisions regarding those projects will align with WPL's assumptions. It is reasonable to include the costs and benefits of the projects in revenue requirement as, WPL believes, it better reflects the costs and benefits that will be seen during the test years.

WPL recognizes, however, that the Commission's decisions relative to those projects or the precise timing of those projects could differ from its assumptions. To help mitigate this risk, WPL proposed deferral mechanism protections. Those mechanisms will protect both customers and the Company should the actual timelines and approvals differ from the assumptions underlying WPL's identified revenue requirements.

Q. Has the Commission approved similar deferral treatment in the past, while also including projected costs of the proposed projects in revenue requirement?

A. Yes, in WPL's last rate proceeding, Docket No. 6680-UR-123, the Commission approved revenue requirements that included projected costs for WPL solar project that had not yet been approved by the Commission, subject to revenue requirement deferral protection (PSC REF#: 427760). The Commission ultimately approved those solar projects; however, the in-service dates for the projects differed from the assumptions underlying WPL's revenue requirements. As a result, the deferral mechanism resulted in the deferral of a regulatory liability balance. That regulatory liability balance is also being addressed in this proceeding and is offsetting, in part, the necessary revenue change.

Q. Are there other reasons that WPL opposes Commission staff's adjustments to exclude the costs and benefits for these pending projects?

A. These projects have material revenue requirement impacts in the test years. Excluding costs and benefits, only to defer those costs and benefits to the future will result in lower cash flow for WPL than appropriate given the projected level of investments. If these transactions are approved, WPL will have to finance those projects in the near term and would then not have corresponding cash flow until WPL's next rate case. In addition, deferral will likely result in the build-up of a regulatory asset balance that will simply push cost recovery to WPL's next rate case and placing cost pressure in that docket.

In addition, Commission staff's proposed adjustment to exclude the Edgewater BESS project actually increases the test years revenue requirements as excluding the project also eliminates the projected ITC utilization during the test year and decreases the amount of administrative and general expenses that are capitalized. WPL anticipates that the timing of the Commission's decision regarding the Edgewater BESS could align closely with the Commission's final decision in this proceeding. On August 1, 2023, a 90-day extension on the timeline for issuing a final decision in that docket (Docket No. 6680-CE-184) was granted under Wis. Stat. § 196.49(5r)(b).[1] As a result, the deadline for a decision in that docket is now December 19, 2023.

Similarly, excluding the sale of West Riverside also increases the revenue requirements relative to WPL's filed case. Furthermore, as discussed by WPL witness Brett Behling, excluding the anticipated sale of 125 MW of West Riverside would result in an artificially low 2024 Fuel Cost

[1] *See* Request for Extension of Time Pursuant to Wis. Stat. § 196.49(5r)(b), Docket No. 6680-CE-184, Granted (Aug. 8, 2023) (PSC REF#: 475922). (*This citation is not record evidence.*)

Plan. If the West Riverside sale is ultimately approved, then all-else-equal that would increase the likelihood of a Deferred Asset Debit Balance to be recovered in WPL's 2024 Fuel Cost Plan fuel reconciliation in 2025.

Q. If the Commission agrees with Commission staff's proposal to exclude the costs and benefits of these projects, what corresponding treatment does WPL propose if the projects are ultimately approved and constructed?

A. If the Commission excludes the projected revenue requirements for any, or all, of these projects, then WPL requests that the Commission authorize deferral of all revenue requirement impacts of the projects and carrying costs based upon the pre-tax (i.e., economic) cost of capital approved by the Commission in its Final Decision this proceeding. The use of the economic cost of capital for carrying costs is consistent with Commission staff's recommendation.[2]

Q. Please explain your understanding of Commission staff's "budget to actual" plant-related adjustments?

A. Commission staff witness Rose states that the rationale for this adjustment is staff's conclusion that WPL "forecasted a faster entry of plant in service than what has actually occurred."[3] I disagree with that statement. Looking at what has actually occurred in the past, some functional categories of plant have actually outpaced the rate that was forecasted substantially,

[2] *See* Direct-PSC-Rose-13.
[3] *See* Direct-PSC-Rose-10.

while others have been entered more slowly. But, overall WPL has a track record of the actual pace being close to its forecast.

With regard to staff's adjustment method, my understanding is that Commission staff evaluated information provided by WPL in response to Initial Data Request 92 (Ex.-WPL-Application: IDR 92) that provided comparisons of CWIP, Plant in Service, and Accumulated Depreciation forecasts from prior rate cases to actual results for the same time periods. Commission staff then adjusted that data for discrete large project impacts that can easily skew budget-to-actual analyses. PSCW staff analyzed the rate of entry within each functional category of plant. That analysis showed that the rate was faster in some categories and slower in others. However, staff did not equally make adjustment across all categories. Rather, they made no adjustments where entry was faster in practice, and only proposed adjustments to categories where the forecasted entry was faster. Overall, I believe that the selective adjustment leads to less accurate results.

Q. Does WPL agree with Commission staff's "budget to actual" plant-related adjustments?

A. No, WPL disagrees with both the methods that Commission staff used to arrive at its adjustments and the ultimate results. Commission staff's proposed adjustments related to plant additions relative to construction expenditures for functional plant categories only where the budget-to-actual analysis showed results lower than 100% of forecast. However, Commission staff ignored functional categories that showed results greater than 100% of forecast. As such, the analysis is unbalanced and biased to only produce adjustments to lower the filed amounts. Such an analysis would be more balanced if it evaluated the whole and then utilized the functional information only if the total supported similar results. In addition, Commission staff's adjustment methodology effectively compounds the impacts over time resulting in an unreasonably high forecast of CWIP balances that earn a current return. While earning a current return on CWIP mitigates some of the impact, an overly high CWIP balance assumptions of projects that do not convert to plant in service results in an understatement of depreciation expense.

Exhibit Ex.-WPL-Michek-13 provides a comparison of WPL's actual average plant-in-service and current return CWIP balances for the years 2022, 2021 and 2020 as compared to the applicable approved test year balances for the corresponding years. This summary analysis demonstrates that WPL's overall construction activities align very well with forecasts approved in each rate proceeding. Over the three-year period, the cumulative variance was less than one-half of one percent of total plant-in-service, with actual plant-in-service being actually higher than the amount incorporated into revenue requirements. Moreover, the summary analysis shows that the Commission staff's adjustment results in a forecast of current return CWIP balances that materially exceed most recent years. Accordingly, WPL recommends that the Commission not accept Commission staff's proposed budget-to-actual adjustments.

Q. Commission staff witness Rose suggests that the Commission could consider requiring WPL to write-off the remaining COVID-19 deferred

balances consistent with the Commission's decisions in Docket Nos. 6690-UR-127 and 5-UR-110. Can you please respond?

A. WPL does not support Commission staff's suggestion that the Commission should require WPL to write-off prudently incurred costs associated with the COVID-19 pandemic. The Final Decision in WPL's last rate proceeding provided for estimated recovery of the deferred COVID-19 costs. The amounts proposed for recovery in this proceeding simply reflect the true-up and finalization of amortizations of the final deferred costs. In addition, the Settlement Agreement approved in the Commission's Final Decision in WPL's last rate proceeding specifically indicated that amortizations of regulatory assets and liabilities reflected in the 2022 and 2023 test year are subject to true-up to actual costs in WPL's next rate proceeding, which is this proceeding. (Docket No. 6680-UR-123, Settlement, Att. A, Section E, ¶ 16.)[4]

Q. Please identify and respond to additional deferrals and escrows discussed by Commission staff witness Rose.

A. Ms. Rose's testimony supports the continuation of the following consistent with WPL's filing: Conservation Escrow, Farm Wiring Escrow, and Transmission escrow. In addition, Ms. Rose's testimony supports the continued deferral accounting treatment if anticipated retirement dates of coal-fired generation facilities change from the retirement date assumptions assumed in this proceeding. WPL remains supportive of those symmetrical

[4] This citation is not record evidence.

protection mechanisms. Ms. Rose's testimony didn't discuss continuation of the existing Bad Debts Escrow. WPL also supports continuation of the Bad Debts Escrow as indicated in my direct testimony.

Ms. Rose also notes that Commission staff has no concerns with WPL's requested deferral treatment for the Power Partnership program if the program is approved by the Commission and suggests that the "Commission may wish to consider granting the requested treatment." (Direct-PSC-Rose-19.)

Q. At Direct-PSC-Rose-19, Ms. Rose suggests that the Commission may wish to require final true-ups in WPL's next rate proceeding for the Solar Project revenue requirement deferral, the Late Payment Fee and Credit Card escrows. Can you please respond?

A. WPL supports these recommendations.

Q. At Direct-PSC-Rose-20-21, discusses deferral of impacts associated with the IRA or the Infrastructure Investment Jobs Act ("IIJA") and indicates that the Commission may wish to require WPL to defer any impacts of these. Can you please comment on this?

A. WPL's revenue requirements in this proceeding reflect anticipated impacts of this legislation. WPL is generally not opposed to deferral of incremental impacts beyond those assumed in the revenue requirement calculations and specifically proposed the tax credit escrow to capture the impacts of variances in tax credit transferability costs. However, Commission staff does not identify what additional impacts they anticipate that may merit deferral. Later in my testimony, I provide an example of an opportunity related to a hydroelectric plant that WPL is pursuing with the goal of bringing increased benefit to customers. WPL believes deferring the costs and benefits associated with such an opportunity is reasonable.

Q. What is your response to Ms. Rose's suggestion, at Direct-PSC-Rose-21, that the Commission may wish to exclude deferral/escrow treatment of PTCs associated with existing wind generation facilities on the basis that existing PTCs for wind generation have already been established?

A. I believe Commission staff misinterprets WPL's proposed escrow treatment of tax credits. The IRA allows for the transferability of PTCs generated after 2022; this includes PTCs generated from both new facilities and existing facilities. WPL does not yet know the cost of transferability but has reflected estimated costs in this proceeding. WPL is proposing escrow treatment for PTCs to address various risks, including (among others) the cost of transferring ITCs and the timing of such transfers.[5] PTCs generated from existing facilities after 2022 are subject to the same cost of transferability uncertainty as those generated from new assets. Accordingly, the rationale for escrow treatment equally applies to the existing facilities as it does to the new facilities.

Q. Please identify and respond to Commission staff witness Andrew Field's discussion of WPL's proposed capacity escrow.

[5] *See* Direct-WPL-Michek-c-57.

A. It appears that witness Field opposes WPL's proposed capacity escrow overall. However, his testimony is unclear on this point since his discussion focuses only on the MISO Capacity Purchases and Bilateral Capacity purchase, without addressing the Sheboygan Falls Lease or the Co-Op Capacity Credits.

Commission staff witness Field questions the relevancy of escrow treatment of purchased power capacity costs generally. In part, Mr. Field points to the fact that WPL does not anticipate capacity deficits in future years. Further, Mr. Field implies that escrow treatment somehow removes incentives for WPL to maintain sufficient capacity, that deferral treatment is often tied to costs outside the control of the utility, and that WPL controls its ability to meet capacity needs. Mr. Field also testifies that Commission staff does not consider the capacity escrow to be a corollary to capacity sales under the Fuel Rules. Finally, Mr. Field further points to the opportunity to address specific issues separately in the future, if needed.

Mr. Field characterizes the costs to which WPL seeks escrow treatment as within WPL's control. WPL disagrees with this characterization. As noted in my direct testimony, the capacity costs that WPL proposes to be subject to escrow include the impacts of the Sheboygan Falls lease costs (which are effectively rental costs for the right to the capacity of Sheboygan Falls), wholesale capacity credit costs, and Midcontinent Independent System Operator, Inc ("MISO") capacity costs.

Q. Can you please expound upon how the escrow treatment relates to the Sheboygan Falls lease costs?

A. The proposed escrow protection for Sheboygan Falls leases recognizes that the proposed upgrades at Sheboygan Falls pending before the Commission in Docket No. 6680-CE-186. The outcome of that proceeding will result in updated lease costs. The outcome of that proceeding and the related lease are at this point outside of the control of the utility. As proposed by WPL, the capacity escrow treatment for Sheboygan Falls addresses the full lease costs and ensures that customers only pay actual, Commission-approved lease terms. Further, as proposed in that construction docket and this regulatory proceeding, the costs that would be incurred related to the Sheboygan Falls lease during construction are in lieu of allowance for funds used during construction ("AFUDC") treatment, which as AFUDC would have no uncertainty over its deferral and eventual recovery. The final actual costs of the project and the in-service date will also influence the actual lease costs, and the escrow treatment will provide symmetrical protections to customers and WPL. With this escrow, WPL is merely asking for similar treatment.

Q. What about the wholesale capacity credit costs?

A. Similarly, wholesale capacity credit costs are outside the control of WPL as the forecasted costs are all contingent upon the slate of projects that are pending before the Commission: (1) West Riverside sale; (2) Edgewater BESS, (3) Neenah capacity and efficiency, and (4) Sheboygan Falls capacity and efficiency. The ultimate approval, timing of these projects and the final costs of these project all impact the wholesale capacity credit costs.

The escrow mechanism will help ensure that the wholesale capacity credit costs are properly aligned between customers and the Company.

Q. Why does WPL believe that the ability to escrow capacity purchases is needed?

A. While WPL can, to some degree, control its long-term capacity position (subject to regulatory approval of projects proposed to fill the capacity position), WPL does not control the market price of capacity in MISO. As has been demonstrated in the last several years, the market price of capacity can be volatile. In addition, the methodology for determining capacity positions in the auction process are in a process of significant change, with MISO changing its methodologies in determining load requirements and assigning seasonal accreditation, which provide further uncertainty as to the outcome of the auction process.

WPL disagrees with Mr. Field's characterization that the capacity escrow is not a corollary to capacity sales, the latter of which is subject to the Chapter PSC 116 Fuel Costs (a/k/a Fuel Rules). Commission staff indicates that they believe that purchased capacity costs tend to be for a set number of MW for set period of time, in contrast to capacity sales that can vary in MW, price and time. As a result, Commission staff indicates that capacity sales revenue tend to be more volatile than purchased power revenue.

It is important, however, to consider the current capacity market world, including the MISO capacity auction process and, more notably, the move to a seasonal capacity market construct, which introduced even more uncertainty in the process. At its most fundamental level, WPL is required to purchase every MW of its load (capacity) obligation by season within the MISO residual auction, while it can offer to sell the accredited capacity for each season at certain prices.[6] However, the new seasonal construct continues to evolve. For example, there are ongoing methodology changes to seasonal load requirements and the accreditation of seasonal accredited capacity for capacity resources. In addition, there are emerging strategies to optimize generation outage schedules within the evolving capacity construct. These and other factors mean that there is a greater likelihood that WPL could be short on capacity in a particular season or look to purchase capacity from a third party (a/k/a bilateral purchase) to optimize its overall portfolio. In those (and other) circumstances, WPL would be in a position where it would be required to purchase capacity to better meet the near-term needs of its customers. WPL's proposed, symmetrical escrow mechanism would help to capture those costs.

Q. Please provide any summary comments on WPL's proposed capacity escrow treatment.

A. WPL reiterates that the proposed capacity escrow treatment is intended to provide symmetrical protection for customers and the Company, along with having a unique circumstance as it relates to the Sheboygan Falls lease, as discussed earlier.

[6] A market participant, such as WPL, has the option to net its load obligations against its accredited capacity in a fixed resource adequacy plan ("FRAP") to the extent possible; however, not all of the market participant's load or capacity needs to be offered in such a manner.

Q. Please respond to the CUB witness Singletary's suggestions for escrow treatment of Short-term Incentive Plan ("STIP") compensation if the STIP costs are allowed full or partial recovery.

A. As I indicated above, WPL witness Yocum responds to the majority of Mr. Singletary's and other witnesses' testimony regarding incentive compensation cost recovery. WPL has reviewed Mr. Singletary's suggestion that STIP recovery, if approved for inclusion in revenue requirement, be subject to escrow treatment and does not oppose escrow treatment of STIP.

Q. Please respond to the WIEG witness Kollen's suggestions to require deferral of revenue requirement if any of WPL's coal-fired generating units retire earlier than assumed in WPL's test year revenue requirements.

A. As indicated in WPL's initial filing, WPL supports symmetrical deferral treatment of revenue requirements if any of WPL's coal-fired generation facilities retires on a date different than currently anticipated.

Q. At Direct-CW-Borden-22-23, CW witness Borden discusses the impact of regulatory asset treatment of the System Asset Value Credit on WPL rate payers. What is your response to that testimony?

A. I believe that Mr. Borden's testimony was written without the benefit of yet having received WPL's response to discovery request 4-CW-1 (a copy of which is provided as Ex.-WPL-Michek-18). First, as shown in that response, WPL proposes that the deferred balance of the regulatory asset established under Power Partnership accrue carrying costs at WPL's applicable short-term debt rate. I expect that reflecting the short-term debt rate in Mr. Borden's calculations would reduce the calculated impact by more than half of that shown in Table 6 of his testimony. Second, Mr. Borden's Table 6 reflects impacts that contemplate a significant growth in the Power Partnership program. Using even the highest level of participation in Mr. Borden's table and adjusting down by about one-half, the annual carrying costs would be approximately $1.35 million, which would equate to approximately one-tenth of one percent of WPL's retail revenue at present rates. Third, as indicated in WPL's response to 4-CW-1 (Ex.-WPL-Michek-18), WPL anticipates that any regulatory asset carrying costs would be recovered from all customers and, therefore, does not represent an incremental cost shift between participating customers and non-participating customers of Power Partnership.

WPL's proposed deferral treatment of Power Partnership is intended solely to ensure that revenue requirements account for WPL's full costs, including any costs of the Power Partnership program (i.e., the participating customer benefits of the Power Partnership program). WPL's proposal for carrying costs based upon WPL's short-term debt rates on the regulatory asset balance that results from the Power Partnership program recognizes that WPL would be able to propose estimates of the cost recovery in annual Fuel Cost Plans and therefore the regulatory asset balances are generally expected to be outstanding for relatively short periods of time.

LEVELIZATION OF EDGEWATER 5 IN THE SECOND HALF OF 2025

Q. CUB witness Singletary, WIEG witness Kollen, and Clean Wisconsin witnesses Lehr and Posner discuss methods of recovery of Edgewater Unit 5 beyond WPL's proposal to continue the levelized recovery of Edgewater Unit 5. Can you briefly touch on the benefits of WPL's proposal to continue the levelized recovery of Edgewater Unit 5?

A. Yes. WPL's analyses demonstrates that levelized cost recovery has real, near-term benefits for customers compared to both securitization and traditional recovery. (See Ex.WPL-Michek-6.) Compared to traditional recovery, the continued levelized recovery saves customers approximately $57 million over the next eight years on a net present value ("NPV") basis. In test year 2025 alone, with Edgewater 5 assumed retired for only a portion of the year, levelized recovery is estimated to save customers projected approximately $8 million.

Q. Do the parties to the settlement agreement in WPL's last rate review ("Settlement") view the levelized recovery as reasonable?

A. That is my understanding. As part of its last rate review, WPL entered into the Settlement with WIEG, CUB, RENEW Wisconsin, Wisconsin Paper Council, Sierra Club, and Clean Wisconsin.[7] As documented in the Settlement, the parties agreed that it was reasonable to recover Edgewater Unit 5 after its retirement on a levelized cost recovery basis. More specifically, the parties agreed that:

> 10. It is reasonable that the Life NBV of Edgewater 5 shall be recovered based upon a levelized cost recovery basis

[7] Sierra Club and Clean Wisconsin signed onto the Settlement except with respect to the components related to rate design and service changes.

upon retirement through June 2045, consistent with the assumed depreciable life of Edgewater 5 in WPL's depreciation study in Docket No. 6680-DU-109 and prior depreciation studies

12. The Life NBV levelized cost recovery amortization schedule supported by Attachment B, Schedule 5, through June 2045 is reasonable and based on current information.

13. It is reasonable to update the levelized cost recovery basis schedule presented as Attachment B, Schedule 5, in WPL's next rate proceeding to reflect the actual Life NBV upon retirement. It is reasonable to maintain the other parameters, such as duration, underlying weighted average cost of capital, and associated levelized cost recovery rate, and to adjust accordingly the amortization schedule thereafter.

(Docket No. 6680-UR-123) Settlement, Att. A, Section D (with emphasis added).)[8] Moreover, on direct testimony, CUB witness Singletary reiterated CUB's view that levelized recovery remains reasonable, stating:

> CUB continues to believe that the settlement agreement approved by the Commission in Docket 6680-UR-123 represented a reasonable resolution to the settled issues within that fact specific context of that proceeding conducted two years ago. Additionally, I believe that the recovery treatment approved by the Commission as part of the settlement agreement **continues to represent a reasonable alternative to traditional recovery.**

(Direct-CUB-Singletary-46 (emphasis added).) WIEG seemingly agrees, recommending that "the Commission affirm the levelized ratemaking recovery of the remaining costs of Edgewater 5 approved in the last rate case proceeding in the absence of securitization financing. (Direct-WIEG-Kollen-3.)

[8] This citation is not record evidence.

In addition, Commission staff witness Adams (at Direct-PSC-Adams-20) recognizes that WPL's modeling assumptions for the cost recovery of the remaining net-book value of Edgewater Unit 5 are reasonable.

Q. Are the revenue requirements proposed by WPL in this proceeding calculated in accordance with the Settlement?

A. Yes. WPL's revenue requirements in this proceeding are consistent with the terms of the Settlement.

Q. CUB witness Singletary and WIEG witness Kollen discuss alternatives as regards to the recovery of the anticipated remaining net book value of Edgewater Unit 5 after retirement. Can you please provide context on that?

A. While Mr. Singletary notes that the levelized recovery of Edgewater Unit 5's remaining net book value is reasonable, he also outlines certain alternatives that the Commission might consider beyond the alternatives analysis I presented in direct testimony. Mr. Singletary contends that even the analysis of partial securitization was too narrow of a view of considered alternatives and suggests additional alternatives should be considered, including:

- Excluding all cost recovery (both of and on) from rates;
- Allow WPL to recover the cost of the remaining net book value, but not allow a return on that remaining investment.

WIEG witness Kollen goes further and asks the Commission to direct the Company to "increase[e] the size of the securitized debt issuance(s) to at least $400 million from the $100 million that WPL analyzed." Moreover, Mr. Kollen "recommend[s] that the Commission incentivize the Company to pursue securitization financing to the extent that it is economic, by reducing the ROE allowed in the weighted cost of capital used to calculate the levelized recovery of the remaining costs through base revenues if it does not do so." (Direct-WIEG-Kollen-4 (emphasis added).)

Q. What is WPL's general reaction to the testimony of Mr. Singletary and Mr. Kollen?

A. WPL recognizes that it is reasonable for CUB and WIEG to comment on WPL's alternatives analysis, and even provide their own independent alternatives analysis if so desired. However, it is WPL's expectation that CUB and WIEG (and the other parties to the Settlement) will continue to stand by the levelized recovery of Edgewater Unit 5 that they agreed to as part of the Settlement. The levelized recovery provides a balanced recovery mechanism, which provides customers with near term savings.

While Mr. Singletary reiterates the reasonableness of the levelized recovery, he clearly supports the Commission consideration of other alternatives, and suggests that the Commission can use this discussion to create leverage for opportunity to enhance customer interests over the utility. WIEG, through its external witness, Mr. Kollen, goes further, directly advocating for something other than the levelized cost recovery WIEG agreed to in the last rate proceeding.

Q. Do you have any specific response to Mr. Kollen's testimony critiquing the alternative analysis provided in you direct testimony?

A. WIEG witness Kollen comments on the net present value revenue requirement ("NPVRR") calculations of the various Edgewater 5 recovery options and questions why they are not the same, particularly when comparing a 20-year option versus a 30-year option. The rationale for this difference relates to the discount methodology used in the analysis. The regulatory convention that has generally been used is to utilize the weighted-average cost of capital ("WACC") as the discount rate. However, the calculated WACC is a combination of pre-tax debt and after-tax equity. In reality, the discount rate to make the calculations equivalent would be the pre-tax WACC, which adjusts the equity rate to a pre-tax level. By not reflecting the discount rate as the pre-tax WACC, the levelized methodology causes the effective ROE that WPL earns with the levelization proposal to be less than the authorized level, which was reflected in testimony in the prior rate proceeding. As incorporated in Ex.-WPL-Michek-5 in Docket No. 6680-UR-123, versus the nominal ROE of 9.8 percent in performing the calculation, the effective ROE that WPL would earn as part of the levelization methodology is 9.2 percent as a result of the imperfect discount rate being used in the process. Thus, WPL is already reflecting a lower rate of equity return with its levelization methodology.

Q. Mr. Kollen's testimony also recommends that the Commission direct the Company to pursue at least $400 million, and as much as the full $473 million, and for the Commission to encourage and incentivize WPL to do so by stating its intention to consider a lower ROE if the Company doesn't pursue a higher level of securitization. Is it your

understanding that Mr. Kollen's recommendation are consistent with existing securitization law in Wisconsin?

A. I am not an attorney and therefore my response is based solely on my general understanding of the existing securitization statutory authority in Wisconsin. I understand that the existing securitization statute (Wis. Stat. § 196.027) is voluntary and at the discretion of the proposing utility. Wis. Stat. § 196.027(3)(b) provides (in part and with emphasis added):

> **The commission may not order or otherwise directly or indirectly require an energy utility to use environmental trust bonds** to finance any project, addition, plant, facility, extension, capital improvement, environmental control equipment, or any other expenditure, unless, except as provided in sub. (2) (c), the energy utility has made an application under sub. (2) (a) to finance such expenditure using environmental trust bonds.

Thus, the recommendations for the Commission to require WPL to utilize securitization, or alternatively suffer financial harm through a lower ROE, which would effectively be an indirect requirement, would seemingly be a violation of the law.

In addition, my understanding is that the ability to securitize is limited to environmental control equipment, whether on the direct capital cost or on the unrecovered value of such property that is retired. Notwithstanding the statutory limitations, Mr. Kollen recommends that the Commission directly or indirectly require WPL to securitize all or a portion of Edgewater Unit 5's remaining net book value. Moreover, by advocating for the securitization of at least $400 million and up to Edgewater Unit 5's full book value, Mr. Kollen appears to be inadvertently advocating that WPL securitize amounts that are not associated with environmental control equipment, which as I understand it would be outside of what is legally allowable.

Q. What is your response to Mr. Singletary's statement that the Commission could consider "complete recovery disallowance of any unrecovered plant balance at the time Edgewater 5 is retired"?

A. I do not consider the alternatives discussed by Mr. Singletary to be reasonable alternatives. Mr. Singletary's focus seems to be on equipping the Commission with "leverage." (See Direct-CUB-Singletary-50.) He seems not to have been arguing that denial of recovery or recovery on would, in fact, be reasonable, as he does not address the principles that I presented in my direct testimony, which FERC considers in addressing the recovery of retired assets with remaining net book value. He also does not respond to the detailed discussion provided by WPL witness Metin Celebi,[9] prior recovery permitted by the Commission and other state utility commissions,[10] or the points of my testimony that describe how Edgewater 5 has served customers for many years and how customers will experience relative savings to continued operation of Edgewater 5 as supported by WPL's Clean Energy Blueprint.[11] Given these points, I do not think that it would be reasonable for the Commission to consider the alternatives presented by Mr. Singletary. Whereas, the record supports that WPL's

[9] *See generally*, Direct-WPL-Celebi.
[10] *See* Direct-WPL-Celebi-30; & Ex.-WPL-Celebi-2.
[11] *See e.g.,* Direct-WPL-Michek-c-59 to 68.

levelization proposal does provide a reasonable approach for WPL and customers.

Q. What is your response to Mr. Lehr's discussion, at Direct-CW-Lehr-10, of the opportunities under the IRA for increased value from PTCs and ITCs?

A. WPL has consistently looked for opportunities to increase benefits to customers and will continue to do so. To this end, WPL promptly reacted to the passage of the IRA to bring increased benefits to customers and thus is already delivering on a significant portion of the potential benefits of the IRA to WPL and its customers.

As discussed in my direct testimony, WPL had planned to own and operate the previously approved solar projects through tax equity partnerships. However, as a result of the IRA, WPL identified that it could increase the benefits to customers by directly owning and operating those solar projects (and the planned BESS projects) and quickly transitioned to that structure. In a September 15, 2022, WPL notified the Commission that it was terminating its tax equity financing, explaining that:

> …recent, material changes to the federal tax code have significantly enhanced the tax incentives available to renewable energy projects, such that WPL can now deliver even greater benefits to customers through traditional utility ownership. On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 ("IRA") into law. As relevant here, the new legislation extends the production tax credit ("PTC") and investment tax credit ("ITC") for wind and solar projects; makes solar projects eligible for the PTC; and authorizes taxpayers to transfer renewable tax credits to other corporate taxpayers in exchange for cash.

> After careful evaluation, and as explained in greater detail below, WPL determined that pursuing these enhanced tax incentives through traditional utility ownership will produce greater customer benefits than its prior tax equity financing proposal. This is because the IRA effectively addresses and resolves the primary factors that drove WPL to pursue tax equity financing in the first place—namely, efficient monetization of the ITCs and avoiding IRS normalization requirements. Under this new tax regime, WPL estimates that traditional ownership of the Solar Projects approved by the Commission in CA I and II, utilizing the enhanced benefits of the IRA, will provide approximately $138 million in present value savings for customers as compared to tax equity ownership under prior tax law.

That notification, which was submitted in Docket Nos. 6680-CE-182, 6680-CE-183, 6680-AE-120, and 6680-AE-121, is provided as Ex.-WPL-Michek-15.

Q. Mr. Lehr recommends that WPL pursue opportunities for funding and to increase benefits to customers based upon IRA/IIJA funding opportunities, including under the Energy Infrastructure Reinvestment ("EIR") Program. (See e.g., Direct-CW-Lehr-16.) Can you please comment on this?

A. In addition to its efforts to increase the benefits of its solar, wind and BESS projects through tax credit transferability, WPL continues to evaluate opportunities for funding and to increase benefits to customers based upon the IRA and IIJA to help fund projects on behalf of customers. That includes pursuing loans under the Department of Energy ("DOE") EIR program.

Q. What is the EIR program?

A. The IRA provided loan authority of up to $290 billion in total principal for the DOE's Loan Programs Office ("LPO"), which is administered under Title 17 of the Energy Policy Act of 2005. Specifically, the IRA created a new loan guarantee program—the EIR program—under section 1706 of Title 17 ("Section 1706") (codified at 42 U.S.C. § 16517). The EIR program authorizes loan guarantees for (among others) projects that:

> (1) retool, repower, repurpose, or replace energy infrastructure that has ceased operations; or
> (2) enable operating energy infrastructure to avoid, reduce, utilize, or sequester air pollutants or anthropogenic emissions of greenhouse gases.[12]

"Energy infrastructure" includes electric generation facilities and associated equipment.

Q. What types of projects are eligible for loans under the EIR?

A. Through the EIR, eligible projects are those that include "upgrades or uprating energy infrastructure so that the facility can restart or operate more efficiently at higher output or lower emissions, replacing retired energy infrastructure with clean energy infrastructure, and building new facilities for clean energy purposes that utilize legacy energy infrastructure."[13]

Q. You mentioned that WPL is pursuing an EIR loan. Please expound upon that.

A. In August 2023, WPL submitted a confidential application, referred to as a Part I application, to the LPO for a loan guarantee for all eligible Section 1706 projects that are in WPL's Clean Energy Blueprint analysis as of the time of submitting the application. This included requesting $756 million of

[12] 42 U.S.C. § 16517(a).
[13] WPL understands that a loan guaranteed under the EIR could *potentially* be used for certain remediation activities provided that it is directly related to new qualifying energy infrastructure.

funding through 2023-2028 for future, anticipated projects. If approved, this LPO funding would have an interest rate of the U.S. Treasury curve, plus a spread of 0.375%, plus a risk-based charge. Depending on the size of the risk-based charge and any incremental ongoing administrative charges, the LPO funding could reduce the financing cost to WPL's customers when compared to the costs of traditional debt financing raised in the debt capital markets by approximately 1%.

Q. Clean Wisconsin witness Posner posits that WPL can use "EIR to refinance the outstanding balance of Edgewater 5." (Direct-CW-Posner-3.) Do you agree?

A. No. It is my understanding that refinancing a legacy fossil-fuel generating facility, such as WPL's Edgewater facility, is not a qualifying project under Section 1706 as it is not a direct replacement or improvement of the generating facility. However, the renewable energy or storage that WPL plans to put in service that replaces the energy and capacity that is provided by the Edgewater facility may be a qualifying project and has been included by WPL in the Part I application.

Q. When do you expect to hear from the LPO on WPL's loan application?

A. WPL anticipates hearing from the LPO regarding the Part I application around November 2023. If the LPO deems WPL's projects eligible and ready to proceed, the LPO will invite WPL to submit a Part II application. The Part II application review the projects from programmatic, technical, environmental, and financial perspectives and determine whether the projects are ready to advance to due diligence and term sheet negotiation.

I understand that LPO's loan application process can take up to 12 months prior to achieving a conditional commitment from the LPO, which would be beyond the timeframe of a Commission decision in this proceeding.

Q. Is WPL pursuing other opportunities under the IRA or IIJA?

A. Yes. WPL is evaluating and pursuing, where appropriate, other opportunities under the IRA and IIJA. For example, WPL notified DOE of its intent to apply for an incentive payment related to a project at WPL's Prairie du Sac hydroelectric facility. The incentive payment is available under Section 247 of the Energy Policy Act of 2005, as amended by Section 40333 of the IIJA ("Section 247").[14] Under that provision, an owner or operator of a qualified hydroelectric facility can receive an incentive payment for projects related to improving grid resilience and dam safety and related to environmental improvements. WPL intends to file an application under that provision in early October 2023 related to the replacement of Prairie du Sac's tainter gates. WPL's response to Commission staff Data Request No. PSCW-JMR-1.3 (which is provided as confidential Ex.-WPL-Michek-16c) provides additional information regarding WPLs efforts to identify opportunities to bring additional benefits to customers, including through grants, loans, and tax credit. WPL's efforts to access these opportunities are ongoing, and the outcomes of these efforts remain uncertain.

[14] Codified at 42 U.S.C. § 15883.

Q. Please summarize your understanding of Commission Staff witness Justin Adam's and CUB witness Singletary's suggestions regarding the continuation of an Earnings Sharing Mechanism ("ESM").

A. Mr. Adam's testimony summarizes WPL's currently authorized ESM, and shares information about WPL's performance under the ESM. However, Mr. Adams does not appear to provide any recommendation with regards to the ESM.

Mr. Singletary compares WPL's currently-authorized ESM to the ESM in place for Northern States Power Company – Wisconsin and the WEC Energy Group utilities (Wisconsin Electric Power Company, Wisconsin Gas Company, and Wisconsin Public Service Corporation). Mr. Singletary specifically recommends that the Commission keep in place an ESM for WPL and suggests that the Commission could either maintain WPL's currently authorized ESM or modify WPL's ESM to align with that approved for the WEC Energy Group utilities.

Q. What is WPL's response to testimony regarding continuation of WPL's currently authorized ESM?

A. As Mr. Adam's testimony indicates, WPL's current and prior ESM all resulted from settlements, that were ultimately accepted and approved by the Commission in WPL's prior rate cases. In each of those prior rate cases, the settlements were reached based upon relatively limited review of WPL's proposed revenue requirements as compared to the full Commission staff audit in this proceeding. The ESM were integral components of negotiated revenue requirements by the settling parties in those proceedings, including

WPL, as it provided the parties protections in lieu of the expanded efforts that would be required of them to do a full audit of revenue requirements. Another key integral component of each of those settlements was the authorized ROE. Certainly, there were various other issues of give and take between each of the settling parties in each of those proceedings and each party balanced their own priorities and evaluation of risks and opportunities in reaching those settlements.

At this time, a settlement currently does not exist in this proceeding. WPL does not believe that an asymmetrical ESM is appropriate in a fully litigated case. WPL has accepted the asymmetrical ESM in prior case settlements with the full understanding of the risks and opportunities it faced relative to the revenue requirements upon which each settlement was based. In a fully litigated proceeding, WPL and all parties defend their positions and ultimately all parties are subject to the Final Revenue requirement approved by the Commission. The asymmetrical nature of the ESM, in the absence of negotiated terms to which it is tied, in a litigated proceeding would tip the balance of risk toward WPL; WPL's upside opportunities would be truncated, but WPL would retain the overall downside risk (e.g., weather, inflation). The asymmetrical ESM would become more problematic if it is tied to an ROE that does not recognize the expectations of investors for comparable risk investments (as discussed by WPL witnesses Bulkley and Rauch).

Notwithstanding those concerns and in consideration of the circumstances of this proceeding as a whole, if the Commission were to approve WPL's requested ROE and capital structure, WPL is supportive of an ESM that is comparable to its current ESM.

Q. Please summarize Walmart witness Kronauer's discussion of the Commission's approved policies on current return on CWIP.

A. Mr. Kronauer's testimony indicates that Walmart opposes allowing a current return on CWIP and generally recommends that the Commission reject past Commission practice allowing current return on CWIP. Alternatively, Mr. Kronauer's testimony suggests that if the Commission approves current return on CWIP, that the Commission should recognize that including CWIP in rate base favors the Company and its investor by shifting risk onto customers and reducing uncertainty of cost recovery, and that such reduction of risk should be reflected in the Commission's consideration of ROE in this proceeding.

Q. What is your response to Mr. Kronauer's suggestions regarding authorizing current return on CWIP?

A. First, I'm confident that the Commission's decisions in prior rate cases have considered its own practices in setting or approving ROE. Thus, I don't think Mr. Kronauer is asking the Commission to do anything it doesn't already do when setting authorized ROE. In addition, a modification away from current return on CWIP practice would signal a shift in risk to the utility relative to current practice.

Second, the Commission's practices related to CWIP are long standing and seek to strike a balance between current customer cost and providing sufficient cash flow to the utility while constructing assets.

Third, in recent years, the amount of CWIP allowed to earn a current return has reduced as most large projects requiring Commission approval have accrued AFUDC on the full CWIP balance activity.

Given the foregoing, WPL believes the current Commission practice strikes an appropriate balance between the customers' and the utility's interests.

Q. CUB witness Steve Kihm's testimony discusses affordability as an important consideration in evaluating a just and reasonable ROE. Has WPL considered the impacts of affordability in evaluating the appropriate ROE in this proceeding?

A. WPL considered affordability in proposed in ROE. Despite materially increasing interest rates and despite evidence provided by WPL witness Ann Bulkley regarding the reasonable range of ROEs, WPL proposed a 10.0 percent ROE, which was "… at the low end of the range of reasonable returns." (Direct-WPL-Bulkley-68.) WPL's requests in this proceeding have balanced customer and investor considerations. WPL takes the impacts of rate increases to its customers very seriously and is making investments in resources (most subject to Commission approval) that will provide relative benefits to consumers for years to come while also ensuring safe and reliable service. WPL strives to control O&M costs despite inflationary pressures. In addition, WPL seeks to implement rates and programs (including those detailed in WPL witness Veronica Stober's testimony) that assist customers manage their energy usage and energy costs.

Q. Dr. Kihm's testimony in discussing WPL witness Bulkley' testimony states that "As noted at the outset, there is so much slack built into the ROE that WPL hasn't even asked for a change in ROE even through interest rates rose by hundreds of basis points." (Direct-WPL-Kihm-12.) Do you have any response to Dr. Kihm's testimony on this matter?

A. As noted in other discussions above, WPL's authorized ROE since 2013 have been established through Commission approved Final Decisions that signed off on settlements to which CUB was a signatory. In each such settlement, there was a negotiated balance of risk and opportunity that each party, including CUB, evaluated and ultimately agreed upon. Dr. Kihm omits that history and simply contends that ROEs have been far too high for too long.

In addition, Dr. Kihm's contention that WPL not asking for an increase in ROE demonstrates that there is "slack" in the ROE is inaccurate. As discussed above, customer affordability was among the factors that WPL considered when it determined to request the maintain its current ROE. As such, when Dr. Kihm claims that WPL's request demonstrates "slack" in the ROE, he is effectively penalizing the Company for considering customer affordability in its requested ROE.

Q. Dr Kihm's testimony states that affordability should bear directly on the determination of the fair ROE. Further stating that as utilities add more and more expensive plant, that may in turn put downward pressure on the just and reasonable ROE, not for financial reasons,

but because of affordability concerns. What is your reaction to Mr. Kihm's testimony?

A. As stated previously, I am not an attorney; I am also not an economist. However, almost my entire professional career, both while at the Commission and while working at WPL, has focused upon utility rate regulation.

In simple terms, the regulatory compact provides that as a public utility, WPL has an obligation to serve its customers and in return should have a reasonable opportunity to earn a just and reasonable return on its investments. A just and reasonable return, logically speaking, should be based upon expected returns for investors related to comparable risk investments. If the authorized ROE is compensatory for comparable investment risk, then the ROE is just and reasonable.

As I understand Mr. Kihm's testimony, he seems to imply that because the cost to provide service is increasing, investors that fund those costs should either (1) accept lower returns per dollar invested, or (2) in some way enable the equivalent return by driving down the utility's share prices to the point at which they would still earn their required return. However, as described in more detail in WPL witness Al Rauch's rebuttal testimony, Dr. Kihm's testimony does not accurately reflect the real-world effects that would flow from implementing the academic theories he discusses. Dr. Kihm's recommendations seem to ignore the chain of events that would be caused if utility share prices are driven down as a result of regulatory action that does not allow investors to receive a reasonable return.

Q. Are there any other topics that you would like to address at this **time?**

A. Yes, there are two additional topics that I would like to address. First, there is a change in a wholesale power supply sales contract that will result in a change in the retail jurisdictional allocation of costs versus the allocation factors that WPL utilized in its filing. Second, WPL has experienced an increasing uptick in O&M costs associated with underground locates that is not reflected in WPL's filed revenue requirements.

Q. Please explain the change in the wholesale power supply sales contract and the impact it has on the test years revenue requirements.

A. WPL has a wholesale power supply agreement with [redacted] [redacted] has experienced a [redacted] since the contract became effectiv [redacted] would change certain jurisdictional allocators and result in a modest increase in the retail allocation of costs, potentially impacting 2024, 2025, or both. In light of this uncertainty, WPL requests the ability to defer any impact such an event occur.[15] Ex.-WPL-Michek-14 provides an example of how such a calculation could occur.

Q. Please summarize WPL's current estimate of the increase in underground locate costs and the reasons for those cost increases.

A. WPL currently estimates that the combined electric and natural gas utility costs of underground locates will increase to approximately $14 million per year in 2024 and 2025. WPL's filed revenue requirements included approximately $8.4 million in 2024 and $8.7 million in 2025. Based on current best information, WPL anticipates an increase in these costs of approximately $5.6 million in 2024 and approximately $5.3 million in 2025 relative to WPL's original filing. These cost increases would be allocated approximately 53 percent to the electric utility with the remainder allocated to the natural gas utility. The electric utility share of these cost increases would be allocated entirely to the retail jurisdiction as the locate work is being completed on WPL's distribution systems. The drivers of these cost increases are two-fold. First, the volume of locates has increased significantly as entities expand fiber optic communications networks (examples in 2023 include expansions in Janesville, Platteville, Cottage Grove, and Stoughton), and other efforts to expand broadband, which will help address the so-called 'digital divide'. Second, the cost per locate activities, which are third-party costs, have increased. In order to keep our

[15] Such an event would also result in a change in the native requirements to be reflected for purposes of the Fuel Cost Plans for both 2024 (if known prior to the Commission's decision in this proceeding) and 2025 (if known prior to the Commission's decision on the 2025 Fuel Cost Plan).

communities safe, state law has a ‘call before you dig’ requirement, which WPL supports and continues to encourage, but does come with added cost. WPL’s filed revenue requirement already reflected an increase in costs based upon activity through 2022 and generally assumed that costs would stabilize at that level. However, WPL continues to experience further increasing costs. Ex.-WPL-Michek-17 provides additional detail on historical and projected locate project costs.

Q. How does WPL propose to address these cost increases in this proceeding?

A. WPL proposes that the revenue requirements for the Final Decision in this proceeding include these increased costs estimates and set the costs subject to escrow accounting. If the Commission is not comfortable with increasing the revenue requirements to reflect the estimated cost increases at this time, WPL’s proposes that the Commission authorize escrow treatment based upon the costs estimates in WPL’s original filing.

Q. Does this conclude your pre-filed rebuttal testimony?

A. Yes