

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Joint Petition of Wisconsin Electric Power
Company and Wisconsin Public Service
Corporation for Accounting Treatment Related to
Pre-Certification Expenditures for New
Dispatchable Natural Gas Generation and Enabling
Infrastructure.

Docket No. 5-AF-_____

JOINT PETITION FOR CERTAIN ACCOUNTING TREATMENTS

Wisconsin Electric Power Company (“Wisconsin Electric”) and Wisconsin Public Service Corporation (“WPSC”) (together, the “Utilities”) jointly petition the Commission for the authorization to implement certain accounting treatments related to pre-certification capital investment. Specifically, the Utilities request that the Commission authorize the Utilities to (a) accumulate capital investments up to \$200 million, as incurred, for long-lead time materials that need to be ordered and paid for in advance in order to have planned generation projects go into service when needed into Account 107, Construction Work In Progress (“CWIP”), and (b) earn an Allowance for Funds Used During Construction (“AFUDC”) on 100% of each Utility’s accumulated CWIP at their respective currently authorized Weighted Average Cost of Capital (“WACC”). Absent the Commission’s authorization of the requested accounting treatment, the Utilities would be materially impacted by approximately \$19.7 million -- about \$5.7 million in 2024 and about \$14.0 million in 2025.

INTRODUCTION AND SUMMARY

Through their Generation Reshaping Plan (“GRP”), the Utilities have committed billions of dollars to new affordable, reliable, and clean energy, and made substantial progress toward their goals of reducing carbon emissions from their systems by at 80 percent by the end of 2030.

To date, the Commission has authorized Utilities' investments include Wisconsin's first large-scale solar energy facilities, the 300-megawatt ("MW") Badger Hollow Solar Park and 150-MW Two Creeks Solar Park, the nearly 92-MW Red Barn Wind Park, and solar and battery energy storage system ("BESS") projects at Paris, Darien, and Koshkonong. These investments will provide nearly 1,300 MW of renewable energy generation and an additional 350 MW of BESS.

As the Utilities continue to invest in renewable generation, they also need natural gas-fired dispatchable resources to ensure a continuous and reliable supply of energy for their customers. The combined impacts of: (1) recently enacted and forthcoming MISO resource adequacy requirements, including the most recently enacted seasonal capacity construct, (2) pending U.S. Environmental Protection Agency ("EPA") Clean Air Act rules that will accelerate the retirement of remaining coal-fired generating plants or conversion of them to natural gas, and (3) increasing customer demand from economic development particularly in Southeastern Wisconsin, will greatly increase the Utilities' need for additional renewable generating capacity coupled with dispatchable natural gas-fired generating capacity and the infrastructure necessary to provide firm natural gas delivery to those generation facilities.

The Utilities will seek Certificates of Public Convenience and Necessity ("CPCNs") for two new natural gas generation projects in the near future: an approximate 130 MW RICE facility located near the existing Paris Generating Station ("Paris RICE") with an anticipated commercial operation date by summer 2026; and the construction of simple-cycle natural gas combustion turbine units totaling approximately 1,100 to 1,200 MW at the Oak Creek Power Plant campus ("OCPP CT") with anticipated commercial operation dates for the units occurring from fall 2027 through June 2028. These are in addition to the future planned addition of 100% gas capability at the Elm Road Generating Station ("ERGS") and Weston Unit 4. Wisconsin

Electric will also seek a Certificate of Authority (“CA”) for the construction of a new liquefied natural gas (“LNG”) facility located adjacent to the ERGS OCPP CT project (“OCPP LNG”) with an anticipated commercial operation date by summer 2027, primarily to ensure a firm supply of natural gas for the over 3,000 MW of natural gas-fired generation planned at the Paris RICE, OCPP CT, and ERGS and Weston 4 units, and secondarily to provide deliverability and strengthen the Utilities’ access to fuel to support their heating needs for other natural gas customers during peak demand and system upsets. The Utilities will also apply for the appropriate approvals for additional solar and wind projects, as well as any approvals required for the ERGS and Weston 4 conversions, as part of its on-going Generation Reshaping Plan.

Significant regulatory changes are coming fast. For the 2023/2024 planning year, MISO has already implemented a seasonal capacity construct that sharply reduces the capacity accreditation for intermittent resources, such as wind and solar. For the winter season, that means a greater than 75% reduction to the accredited capacity of Wisconsin’s solar generation resources. Although solar capacity will increasingly provide the backbone of the Utilities’ ability to meet peak demand in the summer, under these forthcoming reliability standards for new solar generation will not meet the Utilities winter peak capacity needs. By 2028, the Utilities expect additional changes to the MISO capacity construct, focused on ensuring reliability in the “shoulder” period of the day between 7 p.m. and 9 p.m., when solar and short-duration BESS drop off and wind has yet to reach its peak daily generation. MISO’s indicative study of these changes shows solar generation resources may only be accredited for 1% of their nameplate capacity during the winter season¹ in 2031. These regulatory changes are designed to ensure reliability of a transformed grid and place a premium on dispatchable generation resources.

¹ See “2022 Regional Resource Assessment: A Reliability Imperative Report”, MISO (November, 2022) (reporting that in 2031, using the ELCC, Solar Resources are expected to have an average capacity accreditation of 1%).

Combined with the pending changes to EPA's Clean Air Act rules that will accelerate the retirement of coal fired generation, flexible natural gas generation is the practical choice to ensure the Utilities can meet their obligations to provide the reliable energy their customers depend on.

The OCPP LNG project in particular is driven by the growing regulatory concerns over ensuring that dispatchable resources have access to fuel during severe weather conditions. As the CEO of MISO, John Bear, recently noted:

During Winter Storm Elliot, unplanned outages spiked significantly with nearly half of those reported to be due to fuel supply or transportation issues. A very similar scenario played out during Winter Storm Uri in 2021.

As a direct response to major outages during these storms, and the continued focus on firm fuel supplies by NERC, MISO has already enacted changes to accreditation procedures that will encourage load serving entities within their fourteen state footprint, including Utilities have a firm supply of natural gas for electric generation (particularly in winter) and impose penalties for outages. If generation facilities cannot start due to cold weather, or do not have natural gas available to run, they face severe risks of their capacity accreditation being significantly reduced. This would create the risk of customers being exposed to the costs of the Utilities having to acquire capacity in the market that is expected to become more volatile and expensive as the amount of capacity available on the market is expected to shrink with further coal retirements and adoption of the MISO regulatory constructs that will reduce the capacity accreditation for renewable resources. The OCPP LNG project is specifically designed to provide deliverability—in conjunction with other proposed gas supply system upgrades—to the OCPP CT project, the addition of gas firing capability at ERGS, and Paris RICE, while also providing system-support to Wisconsin Electric's natural gas customers.

The current environment that Utilities are operating in today is challenging. Utilities needs to secure key components of new generating and enabling infrastructure facilities as soon as practicable for its planned the RICE and simple-cycle generators, and parts of the OCPP LNG project—have long lead times and are in very high demand, as many other U.S. utilities are also planning to add natural gas-fired generation.² Other utilities that have recently announced plans to build natural gas-fired generating facilities include Dominion³, NiSource⁴, NV Energy⁵, and the TVA.⁶ In order to ensure these projects are ready to meet anticipated customer needs, the Utilities must take the next critical step in the procurement process and get in the manufacturing queues for key components. In order to do so on a timely basis, the Utilities must begin immediately to incur pre-certification costs. Without making these expenditures, costs will likely increase, and these planned facilities may not be available when needed to address MISO's resource adequacy requirement, potentially resulting in the delay of future coal plant retirements in Wisconsin—further increasing customer costs.

Therefore, through this petition, the Utilities request that the Commission authorize the Utilities to (a) accumulate capital investments, as incurred, related the long-lead time materials for the above referenced projects into Account 107, CWIP, (b) earn AFUDC on 100% of each Utility's accumulated CWIP at their respective currently authorized WACC.

² See "U.S. natural-gas fired plant additions to increase again in 2023, EIA says," Power Engineering (October 16, 2023) (reporting that 16 natural gas-fired plants expected to come online in 2023, with another 20 new gas-fired power plants to come online in 2024 and 2025, with total capacity of 7.7 GW).

³ "Dominion reviving plans to build a natural gas peaker plant in Chesterfield," Virginia Mercury (June 14, 2023) (discussing plan to build 4 turbine, 1,000 MW plant).

⁴ "NiSource sticks with gas, renewables in 'balanced' approach to energy transition," S&P Global Market Intelligence (December 1, 2021).

⁵ "Nevada approves \$333 million natural gas plant as historic drought pressures state's power grid," CNBC (March 23, 2023).

⁶ "TVA plans to build its 1st new gas plant in 3 years," Chattanooga Times Free Press (December 6, 2023) (discussing plan to build 5,000 MW plant).

The Utilities *do not* seek pre-approval of the facilities themselves, but only the accounting treatment necessary to finance prudent expenditures prior to completion of appropriate certification proceedings—expenditures which will very likely reduce the ultimate cost to customers of these necessary generation resources.

COMMISSION ACTION REQUESTED

The Utilities seek the Commission's approval of the requested accounting treatments to enable the Utilities to finance the development of new, dispatchable natural gas-fired generation at the Paris and Oak Creek sites and LNG storage facilities, for up to \$200 million in pre-certification capital costs.

As the Utilities and other market participants have continued to invest in renewable resources, MISO has changed, and will continue to change, its resource adequacy requirements, and dispatchable resources—like the flexible natural gas-fired resources to be proposed by the Utilities—will play an increasingly important role in ensuring the Utilities have sufficient generation resources to meet their customers' needs for energy throughout the day, regardless of the weather or the season. Likewise, pending federal air regulations will accelerate the full phase out of coal-fired generation unless and until carbon capture becomes a reality. As a result of these changes, the major components and engineering services for the proposed flexible natural gas-fired units and LNG storage facilities are in high-demand, and the Utilities will need to begin making significant investments to ensure they meet their regulatory commitments and their customers' energy needs.

To support the timely completion of these projects, the Utilities specifically request the Commission authorize the following:

1. The Utilities are authorized to record their pre-certification capital investment in the projects of up to \$200 million as CWIP in Account 107 of the Uniform System of Accounts.

2. The Utilities are authorized to earn AFUDC at the Utilities' respective currently authorized WACC on the CWIP balances associated with the projects.

The scope of the Utilities requested authorization is limited. The Utilities do not seek rulings on the need for these projects, whether they represent the Utilities' least cost option, or the other public interest issues that are required for the Commission to issue a CPCN, or relevant to the Commission's decision to grant a CA. All of those issues will be determined in the upcoming CPCN and CA proceedings.

At this time the Utilities seek the Commission's authorization for the specific accounting treatments outlined above related to the development of new, dispatchable natural gas-fired generation at the Paris and Oak Creek sites and LNG storage, so that the Utilities can finance these projects to meet their customers' need for affordable, reliable, and clean energy in accordance with the resource adequacy requirements of MISO. The Utilities must incur pre-certification costs to ensure timely completion of these generating resources, particularly for long lead-time and high-demand components.

The Utilities' estimate of pre-certification capital investment for the projects totaling approximately \$200 million includes the following components:

OCPP CTs Component	Estimate (\$ millions)
CTs	[REDACTED]
CT GSUs ⁷	[REDACTED]
Major electrical	[REDACTED]
Other engineered equipment:	[REDACTED]
Engineering and Owner's Costs	[REDACTED]
TOTAL OCPP CT Project	\$ 145.7

⁷ Generator Step-Up transformers

Paris RICE Component	Estimate (\$ millions)
RICE Engines	
RICE CT GSUs	
Major Electrical	
Other Engineered Equipment	
Engineering and Owner's Costs	
TOTAL Paris RICE Project	\$ 21.3

OCPD LNG Component	Estimate (\$ millions)
LNG Tank	
Major Electrical	
Liquefaction Equipment	
Vaporization Equipment	
Other Engineered Equipment	
Engineering and Owner's Costs	
TOTAL OCPD LNG Project	\$ 33.0

Many of these components are in very high-demand and require months, if not years, to build. As a result, the Utilities' suppliers require these reservation payments in order to guarantee delivery in time to ensure timely commercial operation. The Utilities will need to finance these significant preliminary, but essential, investments to ensure these generation facilities can be built and go into service when needed. Unless the Commission authorizes the accounting treatment the Utilities request here, the Utilities will be adversely impacted by the cost of having to finance the \$200 million of investments until the units go into commercial operation and incorporated into their rates. The amount of this impact would be material--approximately \$19.7 million in total (\$5.7million in 2024 and about \$14.0 million in 2025). Authorizing the requested accounting treatment will allow the Utilities to be kept whole while making these necessary expenditures.

CONCLUSION

The Commission has authorized Utilities to invest billions in affordable, reliable, and clean generation and are on track to meet their carbon reduction goals over the past five years. Unlike the first phase of the GRP, the next phase of the Utilities' generation planning is not directly driven by the retirement of coal-fired generation (although the Utilities will be eliminating coal as a generation resource by 2032). Rather, the regulatory changes at MISO implementing a seasonal construct and new capacity accreditation methodology, as well as new environmental regulations accelerating coal retirements, are poised to significantly change the capacity markets. These changes are the primary drivers of the need for reliable power to fill the gap when the sun isn't shining, and the wind isn't blowing. Like load serving entities across the Midwest, the Utilities propose to fill that gap with new, flexible natural gas generation and ask the Commission to approve the requested accounting treatments so the Utilities are able to finance the needed long lead-time and currently in high-demand equipment to ensure these essential resources reach commercial operation when needed.

Respectfully submitted February 1, 2024.

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