WEC Energy Group

WEC Energy Group, Inc.
231 W. Michigan St.
Milwaukee, WI 53203

April 12, 2024

Cru Stubley
Public Service Commission of Wisconsin
P.O. Box 7854
Madison, WI 53707-7854

Re.: **6690-UR-128 – Application of Wisconsin Public Service Corporation for Authority to Adjust Electric and Natural Gas Rates**

Dear Mr. Stubley:

Wisconsin Public Service Corporation ("WPSC") is filing for approval to adjust electric and natural gas rates effective January 1, 2025 and January 1, 2026.

WPSC's requested electric rate increases will allow it to respond to challenges arising from high inflation and interest rates, climate change, significant changes in the MISO capacity market and resource adequacy requirements, and stricter environmental requirements, including proposed changes to U.S. Environmental Protection Agency Clean Air Act rules.

Ongoing capital investment to transition WPSC's electric generation fleet accounts for a significant portion of the company's 2025 and 2026 revenue deficiencies. The Commission has authorized WPSC to invest over $500 million in these efforts between 2020 and 2023 and the company plans to invest more than $400 million more between 2024 and 2027. For the 2025 test year, these projects include the Paris Solar (30 MW) and Battery (16.5 MW), Darien Solar (37.5 MW), and distribution-connected solar (approximately 12 MW) projects. For 2026, these projects include Koshkonong Solar (45 MW), High Noon Solar (45 MW), as well as other projects for which the company expects to file applications during this proceeding, and distribution-connected solar (approximately 13 MW) projects.

WPSC also forecasts a $21.2 million increase in operations and maintenance ("O&M") costs in 2025. Like all utilities, WPSC's O&M costs have been impacted by persistently high inflation and increased interest rates that have prevailed for several years.

Another significant driver of WPSC's electric revenue deficiency forecast in 2025 is the increased cost associated with higher participation levels over the past three years in the Low Income Forgiveness Tool authorized by the Commission in docket 5-TU-100. The resulting amortization of the bad debt escrow regulatory asset increases the company's revenue deficiency by $9.0 million.

Other significant drivers of WPSC's 2025 electric revenue deficiency include $17.5 million to reflect higher cost of capital (principally higher cost of equity), a $11.2 million increase in transmission expense, and amortizations of other regulatory assets, including those associated with plant closures, at $9.6 million. These costs are offset by a $13.3 million decrease related to changes in sales and monitored fuel and a $5.0 million decrease related to taxes.

The principal drivers of WPSC's test year 2026 electric revenue deficiency are the recovery of regulatory assets previously approved by the Commission. The amortization of these previously-approved deferrals for $24.7 million in transmission expenses (part of an overall increase of $39.3 million in regulatory amortizations) make up the single largest driver for 2026.

WPSC's total cost to provide electric service to customers in 2025, including fuel, will be approximately $110.1 million or 8.5% higher than is recovered under current rates. Based on preliminary analysis, a typical residential customer's bill is expected to increase between approximately $10 and $12 a month. For test year 2026, WPSC's forecasted electric revenue deficiency is $64.3 million or 4.9% higher than the requested revenue requirement for test year 2025. Based on preliminary analysis, the requested rate increase would increase a typical residential customer's bill between approximately $5 and $6 per month in 2026.

Fuel costs for 2025, which are reflected in the forecast revenue deficiencies summarized above, are expected to decline by a total of $9.7 million (3.0%) compared to the company's 2024 fuel plan. The principal drivers for this decline in forecast are commodity prices, reductions in coal-fueled generation that is replaced with renewables and gas generation pursuant to the GRP, and a reduction of MISO administrative costs. WPSC assumes the same fuel rate for 2026 as 2025 and will file a fuel case for 2026 in the ordinary course.

For the 2025 test year, WPSC seeks a rate increase to address a gas revenue deficiency of $26.8 million (or 6.8%). For test year 2026, WPSC is requesting a rate increase of $16.1 million (or 3.9%) for its gas operations.

Accompanying this Application is the following direct testimony:

- Mr. Richard Stasik gives an overview of WPSC's request in this case and discusses the effects of higher inflation and interest rates, as well as the LIFT program.

- Mr. Joseph Zgonc presents WPSC’s forecasted income statements and balance sheets along with the test year revenue requirements for WPSC’s electric and gas operations. Mr. Zgonc also discusses WPSC’s capital investments since its last rate case and requested changes to its capital structure. Finally, Mr. Zgonc discusses the retirement of certain coal-fired power plants.

- Mr. Brandon Gerlikowski presents WPSC’s fuel cost plan for 2025.

- Mr. Jared Peccarelli supports the 2025 and 2026 electric and gas sales forecasts.

- Ms. Ann Bulkley of The Brattle Group discusses WPSC’s requested changes to authorized return on equity and capital structure.

The attached testimony and exhibits demonstrate that WPSC’s requested rate increases will result in just and reasonable rates while we continue to provide affordable, reliable, and clean electric and natural gas service.

Finally, we will be filing separate cost of service and rate design testimony for WPSC in the first full week of May.

Sincerely,

Robert M. Garvin
Executive Vice President
External Affairs