



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

Public Service Commission of Wisconsin
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April 12, 2024

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

Re.: **5-UR-111 – Joint Application of Wisconsin Electric Power Company and Wisconsin Gas LLC for Authority to Adjust Electric, Steam, and Natural Gas Rates**

Dear Mr. Stublely:

Wisconsin Electric Power Company and Wisconsin Gas LLC are filing for approval to adjust electric, natural gas, and steam rates effective January 1, 2025 and January 1, 2026.

Wisconsin Electric's requested electric rate increases will allow the company to accomplish multiple complementary goals:

- improving reliability and reducing outages from increased storm activity;
- supporting Wisconsin's economic growth and job creation through investments in new generation and distribution projects; and
- complying with anticipated Environmental Protection Agency emissions rules by continuing the transition from coal generation to renewables and natural gas.

Ongoing capital investment to transition the electric generation fleet accounts for a significant portion of the company's 2025 and 2026 revenue deficiencies. The Commission has authorized Wisconsin Electric to invest over \$1 billion in these efforts between 2020 and 2023 and the company plans to invest more than \$3 billion more between 2024 and 2027. For the 2025 test year, these projects include the Paris Solar (150 MW) and Battery (56 MW), Darien Solar (187.5 MW), Whitetail Wind (50 MW), and distribution-connected solar (67.5 MW) projects, and the acquisition of the second 100 MW portion of the Riverside Energy Center. For 2026, these projects include Koshkonong Solar (225 MW), High Noon Solar (225 MW), Badger Hollow Wind (75 MW), Paris RICE (128 MW), and distribution-connected solar (82.5 MW) projects.

Wisconsin Electric also forecasts a \$112.7 million increase in operations and maintenance ("O&M") costs in 2025. Like all utilities, Wisconsin Electric's O&M costs have been

impacted by persistently high inflation and increased interest rates that have prevailed for several years. In addition, the company proposes to increase annual forestry management O&M spending by \$26 million, to \$45 million, to improve reliability and reduce the frequency and duration of outages caused by the growing intensity and severity of storms in Wisconsin.

In the past five years alone, 2019 through 2023, Wisconsin Electric has experienced eight widespread severe weather outages. By way of contrast, in the previous 43 years, from 1976 until the start of 2019, the company only experienced six comparable events. The effect of these storms is exacerbated by the Emerald Ash Borer, which has decimated the state's ash tree stock and led to an increasing number of dead and dying ash trees outside of the utility's right of way and more frequent damage the company's distribution network during storms.

The third significant driver of Wisconsin Electric'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 \$33.7 million.

Other significant drivers of Wisconsin Electric's 2025 electric revenue deficiency include \$31.0 million to reflect higher cost of capital (principally higher borrowing costs) and a \$22.5 million increase in transmission expense. These costs are offset by a \$50.8 million decrease related to changes in sales and monitored fuel; a \$28.4 million reduction of the revenue requirement for amortizations of regulatory assets previously authorized by the Commission; and a \$48.0 million decrease related to taxes.

The principal drivers of Wisconsin Electric's test year 2026 electric revenue deficiency are the recovery of regulatory assets previously approved by the Commission, including deferrals for transmission expense and bad debt escrow, which account for \$151.2 of the \$177.9 million revenue deficiency.

Wisconsin Electric's total cost to provide electric service to customers in 2025, including fuel, will be approximately \$240.7 million or 6.9% 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 \$11 a month. For test year 2026, Wisconsin Electric's forecasted electric revenue deficiency is \$177.9 million or 4.6% 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 \$7 and \$8 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 \$15.4 million (0.7%) compared to the company's

2024 fuel plan. The principal driver for this decline is a significant reduction in coal cost as Wisconsin Electric continues to transition to renewable energy, which more than offsets the increased cost of Wisconsin Electric's power purchase agreement for the output of the Point Beach nuclear plant. Wisconsin Electric 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, Wisconsin Electric – Gas Operations seeks a rate increase to address a revenue deficiency of \$57.5 million (or 10.0%). This increase is driven by additional capital investment in reliability projects that have already been approved by the Commission, including the liquefied natural gas storage facilities, increased O&M costs resulting from increased inflation, and increased costs of capital. For test year 2026, Wisconsin Electric – Gas Operations is requesting an incremental rate increase of \$31.0 million (or 5.1%).

Wisconsin Electric's downtown Milwaukee steam utility is seeking rate increase of \$2.5 million (or 8.4%) for 2025. This increase is driven by ongoing capital investment and forecasted increases in inflation and interest rates. However, no increase is being requested for the 2026 test year.

Wisconsin Gas is seeking a rate increase to address a revenue deficiency of \$67.7 million (or 8.2%) in 2025. This proposed increase is driven by nearly \$400 million in additional capital investment in reliability projects, including liquefied natural gas storage facilities. The revenue requirement associated with this capital investment is \$38.3 million. The other drivers of the increase are (1) \$17.4 million for increased costs of capital; (2) \$20.5 million of increased O&M costs; and (3) \$16.8 million of amortizations of regulatory assets previously authorized by the Commission. For 2026, Wisconsin Gas is seeking a rate increase to address an incremental revenue deficiency of \$30.6 million (or 3.6%).

Accompanying this Application is the following direct testimony:

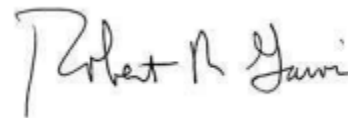
- Mr. Richard Stasik gives an overview of the Applicants' request in this case and discusses the effects of higher inflation and interest rates, as well as the LIFT program.
- Mr. Joseph Zgonc presents the Applicants' forecasted income statements and balance sheets along with the test year revenue requirement for each utility. Mr. Zgonc also discusses the Applicants' capital investments since their last rate case and requested changes to their capital structure. Finally, Mr. Zgonc discusses the retirement of certain coal-fired power plants.
- Mr. Steve Pecha discusses Wisconsin Electric's investments to harden its distribution system to increase reliability.

- Mr. David Megna discusses Wisconsin Electric’s enhanced investments in forestry management to reduce outages due to the combined effects of severe storms and the Emerald Ash Borer.
- Mr. Brandon Gerlikowski presents Wisconsin Electric’s fuel costs for 2025 and 2026.
- Mr. Jared Peccarelli supports the 2025 and 2026 electric sales forecast for Wisconsin Electric and the 2025 and 2026 gas sales forecast for Wisconsin Gas and Wisconsin Electric – Gas Operations.
- Ms. Ann Bulkley of The Brattle Group discusses the Applicants’ requested changes to authorized return on equity and capital structure.

The attached testimony and exhibits demonstrate that the Applicants’ 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 Wisconsin Electric and Wisconsin Gas in the first full week of May.

Sincerely,

A handwritten signature in black ink that reads "Robert M. Garvin". The signature is written in a cursive style with a large initial "R".

Robert M. Garvin
Executive Vice President
External Affairs