



Public Service Commission of Wisconsin

Summer Strand, Chairperson
 Kristy Nieto, Commissioner
 Marcus Hawkins, Commissioner

4822 Madison Yards Way
 P.O. Box 7854
 Madison, WI 53707-7854

Public Service Commission of Wisconsin
 RECEIVED: 5/6/2024 3:59:21 PM

May 6, 2024

Re: Application of Wisconsin Electric Power Company for 6630-AF-102
 Approval of Accounting Treatments for Investments to be
 Made in Distribution Facilities to be Installed in the Village
 of Mount Pleasant in Racine County, Wisconsin

Comments Due:

Thursday, May 16, 2024 – 1:30 p.m.

This docket uses the Electronic Records Filing system (ERF).

Address Comments To:

Cru Stuble
 Public Service Commission
 P.O. Box 7854
 Madison, WI 53707-7854

To the Parties:

The Commission memorandum concerning Wisconsin Electric Power Company's approval of accounting treatments for investments to be made in distribution facilities is being provided to the parties for comment. Comments must be received by 1:30 p.m. on Thursday, May 16, 2024. Party comments must be filed using the Commission's ERF system. The ERF system can be accessed through the Public Service Commission's web site at <http://psc.wi.gov>. Members of the public may file comments using the ERF system or may file an original in person or by mail at the Public Service Commission, 4822 Madison Yards Way, P.O. Box 7854, Madison, Wisconsin 53707-7854.

Please direct questions about this docket or requests for additional accommodations for persons with a disability to the Commission's docket coordinator, Jill Rose at (608) 266-5814 or Jill.Rose1@wisconsin.gov.

Sincerely,

Cru Stuble
 Secretary to the Commission

CS:JMR:jlt:DL:02007411

Attachment

PUBLIC SERVICE COMMISSION OF WISCONSIN

Memorandum

May 6, 2024

FOR COMMISSION AGENDA

TO: The Commission

FROM: Kate Christensen, Administrator
Tara N. Bachman, Deputy Administrator
Jackie Madsen, Director, Bureau of Audit and Accounting
Debra Probst, Audit Supervisor
Jill Rose, Public Utility Auditor
Division of Energy Regulation and Analysis

RE: Application of Wisconsin Electric Power Company for 6630-AF-102
Approval of Accounting Treatments for Investments to be
Made in Distribution Facilities to be Installed in the Village of
Mount Pleasant in Racine County, Wisconsin

Suggested Minute: The Commission (approved/did not approve) the accounting treatments for investments to be made in distribution facilities to be installed in the Village of Mount Pleasant in Racine County, Wisconsin (with or without) the general conditions.

Background

On February 22, 2024, Wisconsin Electric Power Company (applicant) filed an application requesting accounting treatment for investments to be made in distribution facilities, including transformers, breakers, relays and other ancillary equipment to be installed in the Village of Mount Pleasant in Racine County, Wisconsin within the Electronics Information Technology Manufacturing (EITM) Zone (Distribution Project). ([PSC REF#: 491859](#) confidential, [PSC REF#: 491860](#) public.) The applicant is requesting authorization to accrue allowance for funds used during construction (AFUDC) on 100 percent of the construction work in progress (CWIP) balance during the procurement of the equipment and construction of the Distribution Project.

On March 14, 2024, the Public Service Commission (Commission) issued a Notice of Investigation. ([PSC REF#: 493973](#).) The Commission’s Notice of Investigation stated that the Commission intended to conduct its investigation without a hearing. Citizens Utility Board and Wisconsin Industrial Energy Group requested and were granted intervention. ([PSC REF#: 496451](#).) No hearing was requested, required, or held.

Analysis

The Commission may allow utilities to earn a return on the cumulative financing costs for construction projects, which is referred to as AFUDC. The authorization to earn a return on AFUDC may be decided in an accounting docket, construction docket, or a rate application. Historically, the Commission has found it reasonable to authorize AFUDC accounting treatment in conjunction with major projects requiring a Certificate of Authority (CA) or a Certificate of Public Convenience and Necessity (CPCN).

In dockets 6680-AF-100¹ and 6680-AF-102² the Commission authorized Wisconsin Power and Light Corporation (WP&L) to accrue AFUDC on 100 percent of pre-construction costs, enabling WP&L to make down payments on needed equipment associated with the projects identified in those proceedings. In addition, in docket 3270-UR-125³, the Commission continued its authorization for Madison Gas and Electric Company (MG&E) to accrue AFUDC on 100 percent of CWIP associated with projects requiring a CA or CPCN upon approval of a

¹ Final Decision, *Request of Wisconsin Power and Light Company for Deferral of Incremental Pre-Certification Costs and to Begin Accruing Allowances for Funds Used During Construction on Pre-Construction Costs Associated with Solar Generation Resource Development*, (Wis. PSC Dec. 30, 2020) ([PSC REF#: 402305](#)).

² Final Decision, *Request of Wisconsin Power and Light Company for Deferral of Incremental Pre-Certification Costs and to Begin Accruing Allowances for Funds Used During Construction on Pre-Construction Costs Associated with Solar Generation Resource Development*, (Wis. PSC Aug. 26, 2021) ([PSC REF#: 419437](#)).

³ Final Decision, *Application of Madison Gas and Electric Company for Authority to Adjust Electric and Natural Gas Rates* (Wis. PSC Dec. 20, 2023) ([PSC REF#: 487247](#)).

CA or CPCN by the Commission through December 31, 2025; and in docket 6680-UR-124⁴, the Commission found it reasonable for WP&L to accrue a return on 50 percent of CWIP, except where the applicant requests to apply 100 percent AFUDC to new construction projects requiring a CA or a CPCN.

A return on AFUDC allows for the cost of construction to be recovered over time (i.e. over the life of the asset) rather than up-front costs associated with a return on CWIP. With AFUDC, the applicant accrues those costs and includes them in the cost of the asset when it is placed in service. From a ratepayer perspective it can be viewed as pay now (CWIP) or pay over time (AFUDC). Commission staff notes that if the applicant's request is denied, there could be an immediate impact to ratepayers in the applicant's ongoing rate proceeding.

In the absence of AFUDC treatment, the Commission has historically allowed an adjustment to the required return on net investment rate base to provide a return component for a portion, typically 50 percent, of an applicant's CWIP balance. The adjusted required return is then used in determining the applicant's revenue deficiency. Including the associated project cost would increase the overall CWIP balance used to determine the required return calculation, and as such would increase the required return and the resulting revenue deficiency. The increased revenue deficiency would have an immediate impact to ratepayers with the onset of the test year.

If the request is approved, it will allow the applicant to finance the necessary and time-sensitive investments in Wisconsin. The applicant indicated timely construction of the Distribution Project is critical to maintain project timelines and ensure continued business growth and economic development within the EITM Zone.

⁴ Final Decision, *Application of Wisconsin Power and Light Company for Authority to Adjust Electric and Natural Gas Rates*, (Wis. PSC Dec. 20, 2023) ([PSC REF#: 487254](#)).

In prior accounting or rate case dockets where utilities have been authorized to accrue AFUDC on major construction projects, such projects have generally required a CA or CPCN. As a result, the Commission had in those construction applications a defined project scope to which the request to accrue AFUDC applied. However, the Commission has previously authorized the accrual of AFUDC on a project where part of the project did not require a CA. In docket 3270-UR-121, MG&E requested to record 100 percent AFUDC on CWIP associated with the proposed installation of a new customer information system (CIS) with a final estimated project cost of \$50 million. The CIS project was to be utilized by both electric and gas operations, with only the gas utility portion of the new CIS project requiring Commission authorization (provided in docket 3270-CG-123). The Commission concluded:

Based on the current open construction authorization docket for this CIS project, the Commission finds it is reasonable to allow MGE to record 100.00 percent AFUDC for expenditures during 2017. However, as the cost of this project could affect future rates, the Commission directs Commission staff to monitor the entire CIS project and its costs to ensure the project is not excessive.

([PSC REF#: 295447](#), at 20.)

In the present docket, the applicant indicated that the Distribution Project is needed to serve a new customer within the EITM Zone. Typically, installation of each of the parts of the Distribution Project would require a CA under Wis. Stat. § 196.49(3)(b) and the Commission's associated rules. However, the applicant asserted that, pursuant to Wis. Stat. § 196.49(5g)(ar)3., because the project is "primarily to provide service to a new customer within an electronics and information technology manufacturing zone designated under s. 238.396(1m)", the project is exempt from obtaining a CA. ([PSC REF#: 478278](#).)

As a result, the applicant has not submitted any applications for the Distribution Project and few details regarding the scope of the project to which the applicant seeks to accrue AFUDC

on have been provided. The applicant has generally identified the construction and related costs for the Distribution Project by broad category, including transformers, engineering, labor, and other equipment and below grade work. The applicant's estimated range for the construction and related costs for the Distribution Project is \$300 million to \$350 million. Per the application, the applicant estimated the project costs to be \$335 million. However, in response to Commission staff's verbal data request PSCW-VBL-JMR-2.01 ([PSC REF#: 498411](#) confidential, [PSC REF#: 498412](#) public) the applicant provided revised project costs of \$304 million. The applicant indicated that more precise estimates will become available as the procurement process continues and firm pricing is provided by equipment suppliers and contractors, and indicated that it would supplement this estimate as additional information becomes available. ([PSC REF#: 491860](#), at 2.) The applicant indicated all estimates are expected to be recorded as capital expenditures with none of the costs projected to be recorded as operations and maintenance expenditures. The applicant also indicated, due to factors outside of its control, it needed to begin making deposits due to the long lead time and high cost of equipment, particularly transformers.

The applicant's request is also unique because due to the nature of some of the work, which according to the applicant is "primarily to provide service to a new customer within an electronics and manufacturing zone designated under s. 238.396(1m)", some or all of the project costs may be the responsibility of the customer served. *See, e.g.*, Wis. Admin. Code §§ PSC 113.1004, 113.1005. Given the lack of detail provided in this application and the lack of any construction applications filed relating to the work, it is difficult to ascertain what, if any, portions of the project may be the responsibility of the customer served. The applicant also noted that "[b]ecause the customer's forecasted load characteristics are still being refined the

costs to be funded by contributions from the customer to be served has not been determined.”
([PSC REF#: 491860](#), at 2.)

The Commission could consider authorizing the applicant to accrue AFUDC on 100 percent of the estimated CWIP balance for the Distribution Project identified in this application as this is generally consistent with past Commission decisions with respect to large construction projects that would normally require a CA and would result in spreading out the ratepayer impact over a longer period of time. However, given the absence of specific details regarding the proposed Distribution Project and the other unique factors noted above, the Commission may also wish to consider some specific additional conditions should it be inclined to authorize the request. These conditions are discussed later in this memorandum.

In addition to any conditions discussed later in this memorandum, should the Commission authorize the accrual of AFUDC, the Commission may wish to consider requiring that the calculation of AFUDC shall not be based on a cost greater than the estimated \$304 million identified in the applicant’s response to Commission staff’s verbal data request PSCW-VBL-JMR-2.01. ([PSC REF#: 498411](#) confidential, [PSC REF#: 498412](#) public.) Further, if the requested AFUDC treatment is granted, the Commission may wish to restrict the applicant from earning a current return on CWIP for any costs associated with the Distribution Project. When calculating AFUDC, the Commission may also wish to consider requiring the applicant to use its most recently authorized AFUDC rate, which is currently 8.45 percent as authorized in docket 5-UR-110. ([PSC REF#: 455451](#).)

Commission Alternatives – Authorization for Accrual of AFUDC (one or more sub-alternative may apply)

Alternative One: Subject to all, some, or none of the additional conditions discussed later, authorize the applicant to accrue AFUDC on 100 percent of the Distribution Project CWIP balance; and restrict the applicant from earning a current return on CWIP for any costs associated with the Distribution Project during the procurement of the equipment and construction of the Distribution Project as identified in the application.

Sub-Alternative 1a: Require that the calculation of AFUDC shall not be based on a cost greater than the estimated \$304 million identified by the applicant or another amount as determined by the Commission.

Sub-Alternative 1b: Require the applicant use its most recent authorized AFUDC rate of 8.45 percent or another rate determined by the Commission.

Alternative Two: Do not authorize the applicant to accrue AFUDC on 100 percent of the distribution project CWIP balance but allow the applicant to earn a current return on CWIP for any costs associated with the project during the procurement of the equipment and construction of the Distribution Project as identified in the application.

Additional Conditions

Consistent with other Commission accounting orders, the Commission may wish to consider imposing the following general conditions:

1. The Commission shall have full access to all books and records related to the expenditures associated with the Distribution Project.
2. Authorization to accrue AFUDC on the Distribution Project is not a determination by the Commission that the costs incurred are just and reasonable.

3. Authorization of the requested accounting treatment is for accounting purposes only and does not bind the Commission to any specific treatment for these costs in any future proceeding involving rates or other matters before the Commission.
4. The applicant shall begin accruing AFUDC on costs associated with the Distribution Project one day after the date of service of this Final Decision.

Accounting Treatment

The applicant's request is limited to specific accounting treatment for the Distribution Project, and is not a request for construction authorization for the Distribution Project as the applicant has stated that no authorization is required pursuant to Wis. Stat. § 196.49(5g)(ar)3. To be clear that any Commission authorization to accrue AFUDC on the Distribution Project is not a determination as to the need, scope or design of the Distribution Project, the Commission may want to include the following specific conditions:

5. Authorization of the requested accounting treatment is not a determination by the Commission on the need, scope or design of the Distribution Project.
6. The Commission, consistent with its past practice, shall review in a future rate proceeding the recoverability of costs associated with the Distribution Project. If it is discovered or identified that the project cost, including *force majeure costs*, may exceed the estimated cost of \$304 million, excluding AFUDC, the applicant shall, within 30 days of when it becomes aware of the possible change or cost increase, notify the Commission of the accounts or categories where cost deviate from those authorized and shall itemize and segregate those costs by major accounts and provide sufficient documentation to support and explain the reasons for such deviations.

Reporting Conditions

Given the limited information provided to date regarding the scope of the Distribution Project and the preliminary nature of the cost estimates provided, the Commission may wish to impose a number of reporting conditions so that it can monitor the scope of the Distribution Project and its associated costs. These conditions include:

7. Beginning with the quarter ending on a date to be determined by the Commission in the Final Decision, the applicant shall file with the Commission quarterly progress reports relating to Distribution Project that include the following:
 - a. The date that construction commences;
 - b. A description of the components of the Distribution Project constructed during the reporting period, including, as applicable, a description of:
 - (i) The design, material, size, capacity, voltage and location;
 - (ii) The purpose and necessity with supporting data; and
 - (iii) The effect on cost of operation and on the quality and reliability of service.
 - c. Major construction and environmental milestones, including permits obtained, by agency, subject, and date;
 - d. Summaries of the status of construction of the Distribution Project, the anticipated in-service date, and the overall percent of physical completion;
 - e. The actual project costs to-date;
 - f. Customer contribution estimates or contributions made to date;
 - g. Revised total cost estimate for the Distribution Project; and
 - h. The date that the facilities are placed in service.

8. The applicant shall separately record the capital expenditures associated with the Distribution Project.
9. The applicant shall submit to the Commission the final actual costs, segregated by major account, within one year after the in-service date of the Distribution Project. For those accounts or categories where actual costs deviate significantly from cost estimates provided in its application, it shall itemize and explain the reasons for such deviations in the final cost report.

Accounting Treatment End Date

The applicant has indicated that time is of the essence in the processing of its requested accounting treatment and commencing and completion of the Distribution Project “is critical to maintain project timelines and ensure continued business growth and economic development within the EITM zone.” ([PSC REF#: 491860](#), at 1.) This suggests that the work will be completed in a relatively short time period. In light of that timing and in an effort to facilitate the Commission’s review of total costs, the Commission may wish to consider imposing an end date to the accounting treatment – similar to what the Commission has done when deferral accounting treatment is authorized.

10. The applicant is authorized to accrue AFUDC on 100 percent of the Distribution Project CWIP balance through December 31, 2026.

Customer Contributions

To address the uncertainty relating to and impact of any customer contributions required for the Distribution Project, the Commission could also consider imposing the following additional conditions:

11. The applicant shall report to the Commission the initial estimated customer contribution to the Distribution Project within 30 days of the development of the initial estimate, and shall update the Commission quarterly as to any changes or updates to the estimated contribution amounts.
12. Customer contributions received by the applicant for the Distribution Project shall be netted against the CWIP balance prior to the calculation and accrual of AFUDC.
13. Within 30 days after completion of the Distribution Project, the applicant shall provide to the Commission the final accounting entries and AFUDC calculations.

Commission Alternatives – Conditions

Alternative One: Authorize the accrual of AFUDC consistent with the above determination with none of the additional conditions identified in the memorandum (1 through 13).

Alternative Two: Authorize the accrual of AFDUC consistent with the above determination with some or all of the conditions proposed in this memorandum (1 through 13) or as otherwise determined by the Commission.

KEC:JMR;jlt:DL: 02003344

Key Background Documents

[6630-AF-xxx EITM Zone AFUDC Accounting Request_CONFIDENTIAL \(REDACTED COPY\) - PSC REF#: 491860](#)

[Notice of Investigation Signed and Served 3/14/2024 - PSC REF#: 493973](#)

[Final Decision Signed and Served 12/29/2020 - PSC REF#: 402247](#)

[6630 Notice of Exemption REVISED - PSC REF#: 478278](#)

[Response-Data Request-PSCW-VBL-041724-JMR-2.01_CONFIDENTIAL – PSC REF#: 498411](#)

[Response-Data Request-PSCW-VBL-041724-JMR-2.01_CONFIDENTIAL \(REDACTED COPY\) - PSC REF#: 498412](#)