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Public Service Commission of Wisconsin
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BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Superior Water Light & Power Company for Authority to Change Electric, Gas, & Water Rates	Docket No 5820-UR-117

DIRECT TESTIMONY OF COREY S. J. SINGLETARY ON BEHALF OF CITIZENS UTILITY BOARD

Q. Please state your name, business address, and occupation.

A. My name is Corey S.J. Singletary and my business address is the Citizens Utility Board (CUB), 625 North Segoe Rd, Suite 101, Madison, Wisconsin 53705. I am employed by CUB as Director, Regulatory Affairs.

Q. Please state your educational background and experience.

A. I hold a Bachelor of Science degree in Biology and a Bachelor of Arts degree in International Studies from the University of Wisconsin–Milwaukee. I also hold a Master's degree in International Public Affairs with a Graduate Certificate in Energy Analysis and Policy from the University of Wisconsin–Madison, and am a member of the Pi Alpha Alpha Honor Society for Public Affairs & Administration. I have completed training courses in public utility regulation at the Wisconsin Public Utility Institute (WPUI), Michigan State University Institute of Public Utilities, and the New Mexico State University Center for Public Utilities. From May 2010 through June 2017, I was employed by the Public Service Commission of Wisconsin. During my time with the Commission, my work focused on, but was not limited to, electric and natural gas utility cost allocation and rate design, as well as a number of policy issues such as smart grid technology, innovative rate design, rate-based

energy efficiency, conservation, demand response programs, and distributed energy resources.

Since 2017 I have worked for CUB as a rate and policy analyst, and most recently as Director, Regulatory Affairs where also I oversee and coordinate the consumer advocacy work conducted by CUB staff before the Commission and in other venues, while continuing to serve as CUB's in-house expert on utility rate design and regulatory policy. I currently serve as co-chair of the Electricity Committee of the National Association of State Utility Consumer Advocates ("NASUCA") and have served as an instructor on utility rate design for EUCI, the University of Missouri's Financial Research Institute ("FRI"), and the Energy Bar Association. I am also a regular presenter regarding utility consumer issues as part of the Energy Utility Basics training program conducted annually by the Wisconsin Public Utility Institute ("WPUI").

Q. Have you testified before this Commission before?

A. Yes. I have testified in 89 electric, natural gas, and water utility proceedings and investigations before this Commission.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of CUB.

Q. What is CUB?

A. The Citizens Utility Board of Wisconsin, commonly referred to simply as CUB, is an independent, non-partisan, non-profit organization that serves as the statewide consumer advocate for residential and small business public utility customers in Wisconsin. CUB is one of 63 active consumer advocate offices across the United States representing the interests of utility customers in 47 states, the District of Columbia, and Puerto Rico. Most of

CUB's consumer advocate peers are official units of state government designated by the laws of their respective jurisdictions to represent the interests of utility consumers before state and federal regulators and in the courts. State consumer advocate offices are housed in Attorneys General offices, utility commissions, other state administrative agencies, or are constituted as separate state offices. Five states have two or more state offices that advocate on behalf of utility customers. In twelve states, including Wisconsin, utility customers are represented by a non-governmental, non-profit organization, similar to CUB. Three states have at least one governmental consumer advocate and a non-profit representing the interests of utility customers. Wisconsin is one of only three states (Louisiana, Oregon, and Wisconsin) where the sole utility consumer advocate is a non-profit organization.

Like its governmental peers in other states, CUB is a "creature of statute" formed by the Wisconsin legislature in 1979 as an independent consumer advocate for residential and farm utility customers. (Wis. Stat. § 199) Over time CUB has broadened its representation to include all small business utility customers. CUB differs from other parties that intervene in cases before this Commission in that the legislature endowed CUB with a public interest function, stating that "it is in the public interest that there be an independent, nonpartisan consumer advocate for residential, small commercial, and small industrial energy utility customers of this state" (Wis. Stat. § 196.315(1)) and identifying CUB as that consumer advocate (Wis. Stat. § 196.315(2)(a)).

Q. What is the purpose of your direct testimony?

A. My testimony will address the overall revenue adjustments requested by Superior Water Light and Power (SWLP), specific recommended revenue requirement adjustments, and, finally, cost allocation and rate design.

Q. Have you reviewed the overall revenue increases requested by SWLP for the 2025 test year?

A. Yes. As presented by SWLP witness Young, the Company is requesting an overall revenue increase of 5.90 percent comprised of the following retail revenue adjustments across its three service companies:

- Electric: 2.10 percent increase (Ex.-SWLP-Young-13, Schedule 1)
- Natural Gas (Ex.-SWLP-Nelson-01, Schedule 7, 9):
  - 18.13 percent increase, inclusive of the cost of gas.
  - 39.88 percent excluding the cost of gas.
- Water: 17.97 percent increase (Ex-SWLP-Parenteau-02, p.1)

I would note that the revenue increases presented in SWLP's proposed electric and natural gas rate design differ from the revenue adjustments presented by witness Young in Ex.-SWLP-Young-01, Schedule 2.[1]

When considering class level impacts, SWLP is requesting the following increases for the Company's residential and small commercial classes:

- Electric:
  - Residential (ER-1, ER-TD, ED-1, EW-1): 8.4 percent
  - Small Commercial (EC-1): 8.4 percent
- Natural gas (with/without cost of gas):
  - Residential (GR-1): 23.11/46.63 percent
  - Small Commercial (CG-1): 12.63/31.69 percent

[1] Ex.-SWLP-Young-01, Schedule 2 shows overall revenue increases of 2.17 percent and 17.11 percent for electric and natural gas, respectively. The proposed rate designs shown in Ex.-SWLP-Young-13, Schedule 1; and Ex.-SWLP-Nelson-1, Schedule 9 show retail rate increases of 2.10 and 18.13 percent, respectively.

- Water:
    - Residential: 18.66 percent
    - Multifamily: 14.29 percent
    - Commercial: 13.97 percent

Q. What is your impression of these increases?

A. While no rate increase is desirable from a customer perspective, the overall requested electric revenue increase of 2.10 percent is not itself alarming when compared qualitatively to electric rate increases authorized in the past by this Commission for investor-owned utilities (IOUs). However, the large revenue increase requested for residential electric customers, relative to the overall requested increase, does give me some cause for concern.

When considering the requested natural gas and water increases, I also have significant concerns regarding the magnitude of the requested adjustments.

Q. What is the cause for your concern?

A. With respect to electric rates, while seemingly small when compared to revenue adjustments approved by this Commission in recent years, SWLP's request would add to an already alarming trend which has seen the Company's electricity rates grow faster than any other major IOU in Wisconsin, particularly for residential customers.

In 2012, SWLP's levelized per-kWh cost of electricity was just under 10¢ for residential customers, at $0.0991/kWh, where other major IOUs at that time averaged $0.1336/kWh. Since then, the cost of electricity for SWLP's residential customers has grown more than 50 percent, standing at $0.1488/kWh in 2023. If the Company's request is approved as filed, that cost would grow even more, to an average of $0.1623/kWh. This would mean that SWLP, a distribution-only electric utility, will have effectively erased the

cost differential between itself and its peers – peers that have been incurring significant non-distribution, generation-related costs tied to the "clean energy transition." See Ex.Exhibit-CUB-Singletary-1 for more detail.

While I do not have comparable data for gas and water, SWLP's requests for those services are unusually large, particularly for natural gas. This increase is even more concerning given that the Commission authorized 7.7 percent increase in residential natural gas revenues only two years ago in Docket 5820-UR-116.

Q. Are there other considerations that give you cause for concern regarding SWLP's requested rate increase?

A. SWLP serves a portion of the state that has struggled economically and continues to do so. Based on the most recent data from the U.S. Census Bureau American Community Survey (ACS)[2], ten of the fourteen census tracts served by SWLP have a higher percentage of families with income below the poverty line, unemployment, or both, when compared to statewide figures. This can be seen in Table 1, below. Additionally, two tracts within SWLP's service territory, 203 and 2011, have also been identified as Disadvantaged Communities according to the Climate and Economic Justice Screening Tool (CEJST). The CEJST, maintained by the U.S. Council on Environmental Quality, has an interactive map that displays federal agency datasets from federal agencies indicating burdens in eight categories: climate change, energy, health, housing, legacy pollution, transportation, water and wastewater, and workforce development. The CEJST identifies the communities that are experiencing these burdens and are consequently disadvantaged because they are underserved.

[2] 5-Year ACS data (2018-2022)

Table 1: Economic and Environmental Indicators by Census Tract

Census Tract	Families Below Poverty Line	Civilian Unemployed	CEJST Disadvantaged Community
203	11.8%	0.9%	TRUE
204	11.5%	0.8%	
205	7.1%	1.0%	
206	8.9%	5.3%	
207	5.2%	2.6%	
209	9.0%	0.6%	
210	6.1%	4.4%	
211	38.2%	4.7%	TRUE
302	2.6%	1.9%	
303.02	6.6%	2.4%	
208	1.9%	2.1%	
301.01	3.1%	2.6%	
301.02	2.3%	1.9%	
303.01	3.5%	1.7%	
Wisconsin	*6.6%*	*2.2%*	

Q. What does the Disadvantaged Community designation mean for these census tracts?

A. In general, the significance of being identified as a Disadvantaged Community will vary from tract to tract due to the fact that there are a number of burden categories, each with a set of specific socio-economic and environmental burdens and qualifying thresholds. A summary of CEJST burden categories can be found in Ex.hibit-CUB-Singletary-2X. With respect to the two Disadvantaged Communities within SWLP's service territory, the CEJST Disadvantaged Community Qualifying Thresholds met by Census Tracts 203 and 211 are:

- Burden Threshold
  - Legacy Pollution
    - Proximity to Risk Management Plan facilities – 93rd Percentile: Count of Risk Management Plan (RMP) facilities within 5 kilometers.
  - Water & Wastewater

- Underground storage tanks and releases – 98th Percentile: Formula of the density of leaking underground storage tanks and number of all active underground storage tanks within 1500 feet of the census tract boundaries.
  - Socioeconomic Threshold:
    - Low income – 77th Percentile (Tract 203), 93rd Percentile (Tract 211): People in households where income is less than or equal to twice the federal poverty level, not including students enrolled in higher ed.

As you can see, these two census tracts have been identified as Disadvantaged Communities due to the presence of environmental burdens related to legacy pollution and water and wastewater issues, in addition to the socioeconomic burden of having a high proportion of people in households with income less than or equal to twice the federal poverty line. What this suggests to me is that in addition to burdens that directly affect SWLP customers' ability to pay, they are also subjected to burdens that, while not directly linked to income or ability to pay, have the potential to negatively impact health, which can compound household economic issues.

While these three indicators, poverty, unemployment, and CEJST burdens, are but a limited snapshot of possible metrics, I believe they help paint a clearer picture of the context within which the affordability of SWLP's rates and requested revenue increase should be viewed.

Q. Have you examined the affordability of SWLP's rates?

A. I have for SWLP's electric utility and natural gas utilities.

Q. How did you go about this?

A. Historically, the most common way to evaluate affordability is to look at average customer bills and the average levelized cost of cost on a volumetric basis, such as dollars-per-kWh. Average bills is a more direct measure of the costs actually borne by customers, while

levelized cost allows for comparing the cost efficiency of various utilities. As noted above, I have provided such comparisons for SWLP for the electric utility.

These affordability "metrics" have their uses. However, the metrics are typically produced at the customer class level but no higher resolution, masking customer usage factors that could result in different customer bills. These factors include household size, housing stock, whether or not electric or natural gas is used for space heating, and customer lifestyles. The other significant limitation is that these metrics don't consider the other half of the affordability "equation," household income, which influences ability to pay. A $100 monthly utility bill may be relatively inconsequential for a household at a higher income level but be difficult to manage for one at a lower income level.

Q. Is there a way to evaluate utility service affordability that takes into account household income?

A. Yes. The current standard for evaluating utility affordability is household *utility burden*. When speaking about only electricity and gas service, the term *energy burden* is typically used.

Utility burden can be defined as the share of annual gross household income used to pay annual utility bills. Utility burden is characterized as "the percent of income spent on utility costs" and is computed for an individual household as:

*Utility Burden = 100 * (Annual Utility Bill) ÷ (Annual Income)*

For example, if a household has annual utility bills totaling $1,000 and a gross annual income of $10,000, the gross utility burden is 10 percent. The same principle applies if one is considering only energy burden, with the only difference being that rather than

considering the total of all utility costs, only total energy utility costs are used in the calculation.

Q. Is there a level of household utility burden that is considered unaffordable?

A. Most conversations surrounding utility burden have focused on energy affordability, or energy burden. A commonly used affordability threshold is a total 6 percent energy burden when considering both electricity and natural gas service. This is based on past research into the median household economic burden of total shelter costs and the associated energy burden within those shelter costs. Based on that research an energy burden greater than 6 percent is considered to be "high." As a result, many who work on studying utility affordability use the 6 percent threshold to approximate the point at which utility bills become "unaffordable."

This provides a metric that can be used to evaluate the affordability of utility service that is clear and can be used to compare across geographies and utility service territories.

Q. Beyond not considering customer income, you also noted that traditional utility customer cost metrics fail to account for the variability between utility customers. Does utility burden allow us to account for that?

A. Not in and of itself. Utility burden can still suffer from the same obfuscation shortfall as traditional metrics if the resolution of the utility burden analysis is limited to the customer class level. Fortunately, a more meaningful evaluation of utility affordability can be performed if utility burden is calculated at a more granular level of geographical detail than the utility's entire service territory. County or zip-code level analyses are preferable to the whole-utility, but even these geographical areas can be too broad to extract meaningful insights. It is preferable to use calculate energy burden at the highest resolution possible,

meaning at the smallest geographical scale for which reliable data is available. While the utility is capable of calculating the utility cost part of the utility burden formula down to the individual customer, household income data is typically not available on a customer-by-customer basis. As such the preferred approach is to calculate utility burden at the census tract level as this is the highest resolution at which household demographic data, including household income, is reliably collected. In particular, the U.S. Census Bureau collects this type of data as part of its annually updated ACS, 5-year dataset.

Q. Has such a utility burden analysis been performed for SWLP at the census tract level?

A. Yes, in part. Energy burden has been estimated by census tract by two entities.

First, since 2023 the U.S. Department of Energy has published the Low-Income Energy Affordability Data (LEAD) Tool, which leverages the ACS for both energy costs and household income to estimate total energy burden by census tract. The Tool is presented via an online, interactive platform that is intended to "[help] users make data-driven decisions on energy goals and program planning by improving their understanding of low-income and moderate-income household energy characteristics."[3] In addition to electricity and natural gas costs, the LEAD tool also considers reported expenses on other household energy sources such as propane and heating oil.

Second, since 2020 this Commission has required Wisconsin's major IOUs to file an energy burden analysis as part of their annual report with the PSC. The methods and data sets used by the utilities to calculate energy burden for their customers has varied over time, with inconsistencies between utilities. However, as of the 2023 reporting year, a consistent methodology as specified by Commission staff has been adopted that has seen all major

[3] www.energy.gov/scep/low-income-energy-affordability-data-lead-tool-and-community-energy-solutions (not provided as record evidence)

IOU's prepare energy burden results at the census tract level for electric and natural gas services, with energy costs being based on actual historic customer billings.

These results from both the LEAD tool and SWLP's energy burden analysis can be seen below in Table 2, with census tracts grouped based on whether customers in those tracts take combined electric and natural gas service, or only natural gas.

Table 2: Average Household Energy Burden by Census Tract

Household Energy Burden					
	U.S. Department of Energy Low-Income Energy Affordability Data (LEAD) Tool				SWLP Reported[4]
Census Tract	Electricity	Gas	Other	Total	Electric & Gas
Combined Electric & Natural Gas					
Census Tract 203	3%	3%	0%	6%	2.9%
Census Tract 204	3%	3%	1%	6%	2.6%
Census Tract 205	3%	3%	0%	6%	2.6%
Census Tract 206	2%	2%	0%	4%	2.3%
Census Tract 207	3%	3%	0%	6%	4.2%
Census Tract 209	3%	3%	0%	7%	3.3%
Census Tract 210	3%	3%	1%	6%	2.9%
Census Tract 211	3%	3%	0%	6%	3.8%
Census Tract 302	3%	4%	1%	8%	2.4%
Census Tract 303.02	3%	5%	1%	9%	3.3%
Natural Gas Only					
Census Tract 208	3%	3%	0%	6%	1.4%
Census Tract 301.01	2%	4%	2%	8%	1.4%
Census Tract 301.02	3%	5%	1%	8%	1.2%
Census Tract 303.01	3%	5%	1%	9%	1.3%

Q. What do these results reveal?

A. The two data sets tell two somewhat different but overall similar stories. First, when examining the results, the advantage of using census tract-level data begins to show as we start to see that affordability is not a uniform challenge across SWLP's service territory. If

[4] Data obtained from Commission staff.

one recalls the socioeconomic indicators discussed previously, this intuitively makes sense. However, actually calculating energy burdens allows us to better understand not only which communities within the utility's service territory are experiencing affordability challenges, but also the degree to which affordability, not just utility bills or income, vary from one area to another. Both the LEAD Tool results and SWLP analysis show how burdens vary from across communities. It is important to remember that in the case of SWLP's figures, the energy burden reported for natural-gas only census tracts represents only the burden from natural gas service.

The second thing that jumps out to me is that there is a significant difference between the two sets of results. While I have not been able to identify the source of the difference, I suspect it is likely due to differences in the way that utility/energy costs are determined. That being said, both sets of results do indicate to us that energy burden is an issue for a number of customers. For example, the LEAD Tool results indicate that energy burden is at or above the six percent affordability threshold for nearly every census tract in SWLP's service territory. While the LEAD Tool results include "other" household energy sources, not just electric and natural gas costs, we should not ignore the significance of these results as "other" energy costs are real costs borne by real customers, contributing to affordability challenges alongside electricity and natural gas costs. Moreover, even if one excludes "other" household energy costs, most census tracts still exhibit energy burdens at or very near six percent, with many exceeding that threshold.

Q. Does the data prepared by SWLP us to better understand these different energy burdens?

A. Yes. An additional advantage of using census tract-level data is that we are able to take advantage of the broad array of household economic data collected through the ACS to more fully understand utility affordability challenges. For example, using the utility bill data from SWLP along with ACS data regarding household income distributions, I estimated the percentage of households within each service territory experiencing high energy burdens (electric and natural gas) at different levels. These results can be seen below in Table 3.

Table 3: Energy Burden Distribution by Census Tract

	Percent of Households with Energy Burden Greater or Equal to:			
Census Tract	**6%**	**10%**	**15%**	**20%**
203	30%	14%	6%	2%
204	18%	7%	2%	0%
205	26%	15%	8%	5%
206	20%	6%	6%	0%
207	43%	29%	16%	0%
209	26%	11%	7%	0%
210	29%	4%	2%	0%
211	33%	19%	3%	0%
302	15%	9%	6%	3%
303.02	39%	16%	16%	0%
208	22%	0%	0%	0%
301.01	28%	5%	0%	0%
301.02	10%	0%	0%	0%
303.01	18%	2%	0%	0%

While these results should be taken as estimates rather than precise figures, they do reveal that affordability is a significant challenge for a large percentage of SWLP customers, with somewhere between 15 and 43 percent of households experiencing some degree of "high" energy burden with a distressing percentage of households experiencing burdens in excess of 10 and even 15 percent. These results also highlight how high degrees of income or socioeconomic inequality can exist even within a geographic area as (relatively) small as

a census tract. These results represent real people and families who are struggling to pay their utility bills today.

Q. Have you considered the impact of SWLP's requested increase on affordability?

A. Yes. Using SWLP's requested residential increases for electric and natural gas, I adjusted the annual electric and natural gas bill amounts and performed the same analysis just presented in order to determine whether and to what degree affordability challenges would be exacerbated by the requested increase.

Q. What did that analysis reveal?

A. As shown below in Table 4, the proposed increases would cause a number of customers to be pushed over the six percent "high" energy burden affordability threshold in about a third of the census tracts served by SWLP. Perhaps more concerning, however, is that the proposed increase is likely to increase the proportion of customers who would experience severe energy burdens of 10 percent or more across most of SWLP's service territory. These represent customers who are already facing "high" energy burdens and whose ability-to-pay would be measurably worsened going forward.

Table 4: Affordability Impact of Requested Increases

Percent of Households with Energy Burden Greater or Equal to:								
Census Tract	**6%**		**10%**		**15%**		**20%**	
	Present	**Proposed**	**Present**	**Proposed**	**Present**	**Proposed**	**Present**	**Proposed**
Combined Electric & Natural Gas								
203	30%	30%	14%	14%	6%	6%	2%	2%
204	18%	18%	7%	8%	2%	7%	0%	2%
205	26%	26%	15%	15%	8%	8%	5%	5%
206	20%	20%	6%	10%	6%	6%	0%	4%
207	43%	43%	29%	29%	16%	16%	0%	0%
209	26%	31%	11%	26%	7%	11%	0%	7%
210	29%	29%	4%	15%	2%	4%	0%	2%
211	33%	43%	19%	19%	3%	19%	0%	0%
302	15%	25%	9%	9%	6%	6%	3%	6%
303.02	39%	39%	16%	29%	16%	16%	0%	3%

Natural Gas Only (Imputed)								
208	22%	22%	0%	5%	0%	0%	0%	0%
301.01	28%	28%	5%	8%	0%	0%	0%	0%
301.02	10%	17%	0%	3%	0%	0%	0%	0%
303.01	18%	26%	2%	4%	0%	0%	0%	0%

Q. Why is it important that the Commission consider affordability when evaluating SWLP's proposed rate increases?

A. The goal of any rate proceeding is to ensure that just and reasonable rates are in place for utility service provided by SWLP. One of the most basic considerations for whether rates could be determined just a reasonable is whether they provide an opportunity for the utility to recover its expenses and earn a reasonable return on its investments.

In its role as the regulator the Commission has the task of ensuring that the expenses incurred by the utility (including depreciation) are prudently incurred and provide benefits to the utility's customers, and that the return authorized for utility investments is reasonable. In both cases, the Commission must balance interests of the utility's customers against the interests of the utility's current shareholders. Dr. Kihm discusses this issue of balance more extensively in his testimony. However, there is an additional balance that must be struck when setting utility rates, and that is the "balance" of the metaphorical three-legged stool of utility service held up by the three legs of safety, reliability, and affordability.

I believe that the affordability of a utility's rates are a critical input into the determination of balance. The importance of affordability in this consideration is underscored by the fact that electricity, natural gas, and water utility services are essential, life-sustaining services. Utility costs are not discretionary as customers cannot simply forgo using these services if bills rise to unaffordable levels – not without significant risks to health and safety. As such I believe that the Commission should take advantage of all of the levers at its disposal to ensure that only those costs that are essential to providing safe and

reliable service are recovered through rates, whether those costs be expenses, capital investments, or the return on those investments. Absent this, affordability is compromised and our stool topples.

Q. Do you have any final comments on utility burden?

A. Yes. All of the analysis presented above only considers household *energy* burden for SWLP customers. Many of these same also pay water utility bills, with those served by SWLP also facing a potentially large increase to the cost of that service as well. When considering affordability as part of its decision making, I believe it is critical to not lose sight of the impact that water rates have on customer ability-to-pay.

Q. Turning to the utility's costs, do you have any adjustments to SWLP's requested test year revenue requirements that you would like to propose?

A. Yes. Starting with expenses, I propose that the Commission remove expenses from test year revenue requirements in three areas: incentive compensation, association dues, and advertising.

Q. Can you please explain your requested adjustment to incentive compensation?

A. Yes. SWLP's test year revenue requirement includes incentive compensation expenses of $236,818 for electric, $63,623 for natural gas, and $53,019 for water, for a total of $353,460.[5] According to the Company, 30 percent or $104,502 of the requested incentive compensation amount is tied to "Operational and Strategic goals."[6] While not explicitly stated, in any of the Utility's data request or discovery responses, a high level summary of the SWLP's employee compensation programs provided by the Company suggests that the

[5] IDR #46
[6] Response to PSCW-EJG-1.6

remaining 70 percent of incentive compensation is paid based on the achievement of financial goals.[7]

Performance incentive compensation should only receive retail rate recovery if it can be demonstrated, and the Commission determines, that the structure and metrics for incentive payments provide benefits to the utility's customers who will be bearing the associated costs. As noted previously, only 30 percent of SWLP's incentive compensation program is tied to operational and strategic goals. More specifically, these goals fall in the following categories:

- Strategic:
  - Advance Infrastructure and Sustainability
  - Advance Customer Excellence Strategy
- Operational:
  - Safety
  - Customer Service (reliability metrics)

While the Company's description of its incentive compensation metrics are lacking in detail, I believe that some of the strategic and operational metrics *could* be reasonably aligned with SWLP's customers' interests. However, without more detail I do not believe that it would be reasonable for the Commission to include the costs associated with these incentive compensation metrics.

This brings me to my principal concern. I am troubled by the fact that 70 percent of of incentive compensation is tied to corporate financial goals.[8] Additionally, it is unclear whether the payment of incentive compensation tied to operational and strategic goals is

[7] Response to PSCW-Griffin-1.6
[8] *Id.*

conditional upon the achievement of corporate financial goals. In any case, as a practical matter the structure of the SWLP's incentive compensation program provides a relatively weak incentive for the rest of the metrics that make up the remaining 30 percent. The Commission's final decisions in recent IOU rate proceedings are instructive regarding this. In its final decision in docket 4220-UR-123, the Commission stated:

> In this case, the Commission finds that it is not reasonable to include the cost of NSPW's AIP in the revenue requirement. First, no AIP payments are made unless a financial metric, that benefits shareholders, is met. *While NSPW may consider financial performance triggers irrelevant, the Commission finds that NSPW's current AIP program does not reasonably provide benefits to NSPW's ratepayers when it continues to be tied to a financial metric.* (PSC REF#: 335158 emphasis added)

This decision was subsequently reaffirmed in the Commission's Final Decision in Docket 4220-UR-126.

Similarly, it its Final Decision in Docket 6680-UR-124, the Commission "[found] it reasonable to continue to exclude the STIP costs in the revenue requirement consistent with historic practice and because the record in this proceeding was insufficient to demonstrate that the 30 percent of STIP tied to operational metrics provides a customer benefit." (PSC REF:# 487254) In that case Wisconsin Power and Light's STIP program was similarly structured to SWLP's request in broad terms, with 70 percent of incentive payments tied to financial metrics and the remaining 30 percent spread across a number of operational metrics. Additionally, unlike with NSPW, WPL STIP payments tied to operational metrics were not conditioned upon achievement of financial goals. Moreover, in that case, WPL provided substantially more evidence and supporting arguments regarding specific metrics, targets, and payment percentages than SWLP has in this proceeding. Despite all this, the

Commission found that customer benefits were insufficiently proven, warranting the ordered disallowance.

As noted above I am not fundamentally opposed to the inclusion of incentive compensation expenses provided there is sufficient evidence that that the structure of the incentive compensation program produces customer benefits. Additionally, consideration should be given to whether incentive compensation programs are incentivizing employee behavior and customer outcomes that are incremental or above and beyond what should be expected from the utility as a matter standard prudent operations and management. I do not believe that the evidence presented thus far in this proceeding supports such a conclusion. As a result I recommend that the Commission exclude all incentive compensation from SWLP's test year revenue requirements.

Q. What is your recommendation regarding Industry Association dues?

A. SWLP's test year revenue requirement includes industry association dues, which are recorded in Account 930.2. According to the Company's responses to Commission staff's data requests. SWLP is requesting to recover in rates, $25,011 for electric, $1,130 for gas, and $825 for water, for a total of $26,966 in association dues. As with incentive compensation, I believe that it is only appropriate to recover such expenses if it can be shown that there are associated customer benefits. Similarly, the Commission "allows the recovery of association dues, to the extent that the activities of an association provide a benefit to customers. Certain industry associations have programs and activities, such as lobbying and advertising, that generally do not provide a benefit to customers." (PSC REF#: 487254) In recent IOU rate proceedings, the Commission has sent a clear signal that utilities bear the burden of proof to demonstrate that any association dues for which rate recovery is

sought provides a benefit to customers, requiring that those utilities provide specific details demonstrating those customer benefits, up front in initial rate case filings.[9] Thus far, the record includes no evidence supporting the recovery of these expenses. As such I recommend that the Commission remove 100 percent of association dues from SWLP's test year revenue requirements.

Q. What is your recommendation regarding advertising expense?

A. SWLP has included $58,795 in advertising expense in its test year revenue requirements across the three operating utilities. As with the above two issues, I am not entirely opposed to the recovery of advertising expenses through customer rates but believe that such recovery should only be granted when there is evidence that the expenses provide customer benefits. Indeed, certain types of informational or educational advertising can be very beneficial to customers. Even certain types of sales advertising expenses could be permissible if the purpose is to connect customers with utility rates or programs that would benefit the customer and that the customer would otherwise remain unaware of. Conversely, advertising such as goodwill activities should not be recovered through rates as there generally isn't a benefit to customers. That said, the record to-date in this proceeding does not include any information regarding the specific advertising activities that will be paid for with the requested dollars, making it impossible to discern which expenses are appropriate for inclusion in rates and which are not. As such, I am recommending at this time that the Commission remove the amount requested for advertising expenses until the Company presents sufficient evidence for the Commission to determine what, if any, expenses are appropriate for rate recovery.

[9] PSC REF#: 487247 at 7, 28-29-31 ; PSC REF#: 487255 at 7, 24-25; PSC REF#: 487254 at 6, 34-35;

Q. Do you recommend any adjustments to test year rate base at this time?

A. Yes. On July 13, 2023, the Commission issued its final decision in Docket 5820-CG-107, approving SWLP's application for the Hammond Avenue Natural Gas Main Replacement/Relocation Project (HARP) at a total cost of $2,264,977. On September 28, 2023, SWLP filed a notification with the Commission indicating that the project costs would exceed the approved budget by more than 10 percent.[10] On March 14, 2024, SWLP filed an estimate of completed project costs of $2,414,612.[11] In response to Commission staff data request PSCW-JMK-1, SWLP provided additional information regarding the project cost overruns identifying the budgeted to actual deviation which was produced by changes in costs booked to accounts 376 and 380. The total cost overrun as indicated by the Company in PSCW-JMK-1.1 is $327,364.

Q. What was the cause of these cost overruns?

A. PSCW-JMK-1.2 provides a more detailed description of SWLP's stated causes for the cost overruns, but they can broadly be grouped into three categories:

- Construction & Restoration
  - Base bid coming in higher than budgeted ($171,619)
  - Change orders ($15,779)
  - Unbudgeted live tapping and welding ($46,479)
- Labor
  - Change in schedule due to weather ($80,091)
- Unbudgeted Meter Relocation ($41,589)

[10] "Order Point 3 - Notification of Project Costs Exceeding Budget Plus Ten Percent," September 28, 2023, Docket 5820-CG-107

[11] "Order Point 7 - Notification of Estimated Completed Project Costs (REVISED)", March 14, 2023, Docket 5820-CG-107

Q. Is there a test year revenue requirement impact to these cost overruns?

A. As provided in SWLP's response to PSCW-JMK-1.3, the Company represents the incremental natural gas revenue requirement impact of the cost overruns to be an increase of $37,000, not factoring in the tax effect on the difference. Assuming 100 percent of the overrun amount represents capitalized costs (i.e. changes in net investment rate base), I estimate that the total revenue requirement impact of the HARP cost overruns to be $50,853 inclusive of the tax effect.[12]

Q. Do you have a recommendation regarding these costs?

A. Yes. After reviewing the information provided by SWLP, I recommend that the Commission disallow for the recovery of the cost overruns associated with HARP.

Q. What is your reason for suggesting this disallowance?

A. SWLP filed its application for approval of the HARP on March 10, 2023 and received Commission approval on July 13, 2023. Given the recent caseload limitations at the Commission, this is a fairly quick turnaround. Little more than two months later, on September 28, 2023, SWLP provided the 10 percent cost overrun notification required in the Commission's Final Decision, including the new estimated project cost as of September 10, 2023. The project was ultimately completed two months after that on November 15, 2023.

Given the scope of the project as well as the project timeline, the fact that the base bid for the project came in $171,619 over budget, a budget that was filed with the Commission not 7 months prior, concerns me. This was not a multi-year, construction project for a large, complicated asset like a power plant, where cost assumptions can be overcome by events due either to the long passage of time. That SWLP did not have a firmer

[12] Amount calculated using the incremental income tax rate shown in Ex.-Young-12, Schedule 2, p.2

bid commitment in place prior to filing is surprising to me. This single cost variance caused the project to run 8 percent over budget. The next two largest areas of non-labor cost overruns came in the form of unbudgeted work needed to perform live tapping the of gas lines and the relocation of meters within the project area. Absent compelling evidence provided by the Company demonstrating that they conducted all due diligence and these costs were truly unavoidable *and* reasonably unforeseeable, I do not believe that that customers should bear the costs of the HARP going over budget.

Q. Aren't utilities entitled to recovery of costs associated with projects that are given Commission approval?

A. No. Even in the case of projects that come in *under* budget, cost recovery is contingent upon approval by the Commission. Operating a public utility is not a risk-free enterprise. As Dr. Kihm describes in his testimony, the risks associated with operating a utility, including the risk of disallowed cost recovery, are priced into the utility cost of equity. Moreover, as Dr. Kihm notes, Commissions typically set the authorized return on equity (ROE) so as to provide a "cushion," or premium, above the cost of equity. The cost of that ROE is then recovered from customers. As a result, utility customers are paying the price to compensate the utility's investors for the risks associated with investing in a utility, risks such as the cost overruns for the HARP. I believe that it would be unfair to customers to saddle customers with the cost of these returns only to then shield the utility, dollar-for-dollar, any time that risk actually manifests. As noted previously, just and reasonable rates requires a fair balancing of the interests of shareholders *and* customers. I believe that allowing the Utility recovery of the costs of the HARP up to the budget amount approved by the Commission

while disallowing the overrun costs strikes a more reasonable balance than asking customers to pay for everything.

Q. Are there any costs associated with the overruns that the Commission could reasonable grant recovery?

A. From my perspective, the only category of cost overruns that could be deemed appropriate for recovery would be the labor costs associated with changes in the construction schedule due to concerns regarding winter weather. Given that the HARP had to be coordinated with road construction conducted by the City of Superior, the Commission could find it reasonable to grant recovery of these labor costs as SWLP may have had reduced control over the project scheduled in term of cost management. That said this would not be my primary recommendation.

Q. Do you have any recommendations for the Commission should it deem it reasonable to grant recovery of the underlying HARP overrun costs?

A. Yes. Should the Commission elect to take this path, I would recommend that the Commission authorize return of, but not on, HARP costs. Doing so would effectively make investors whole for the cost of the initial capitalized investment, while providing some rate relief for customers to offset the cost-control failure.

Q. Have you reviewed the cost of service studies (COSS) prepared by SWLP.

A. Yes.

Q. Do you have any comments regarding SWLP's COSS analyses?

A. Yes. SWLP's electric and natural gas COSS models apply a distribution cost classification approach commonly referred to as a minimum system method. This attempts to identify a portion of distribution system costs such as poles, wires, conduit, transformer, and gas mains

that are considered to be customer-related costs. This is based upon an assumption that a portion of these costs is correlated with the number of customers on the system. I do not believe that this approach is appropriate. Instead, these costs should be allocated on the basis of system demand and (particularly in the case of gas and water) total commodity throughput.

Q. Did you perform your own COSS analyses with your preferred cost classification method?

A. Yes. I adjusted the Company's electric and natural gas COSS to be more consistent with the "basic customer cost" method that I believe more accurately reflects cost causation. While the results differed slightly, they were not so different as to affect my position regarding SWLP's proposed revenue allocations and rate designs.

Q. And what is your position regarding the Company's proposed revenue allocations and rate design?

A. Based on my review, I do not have any overall objections to SWLP's proposed revenue allocations and rate design for electric, natural gas, and water. For the natural gas and water utilities, SWLP's proposal reasonably reflects the cost to serve at the customer class level, and in the case of natural gas still manages to be reasonably consistent with the results of my preferred COSS. With respect to SWLP's proposed electric revenue allocation, the Company's proposal represents what I believe is a reasonable attempt to moderate some of the larger revenue increases suggested by the COSS, particularly for residential customers, while still generally respecting the directionality of the class COSS results. The only recommendation I would make would be limit class-level revenue increases to 2-2.5 times the overall utility increase. Presently, SWLP is requesting an 8.4 percent overall increase for

the residential and general service (small commercial) classes while the overall revenue increase is only 2.1 percent. While this does move residential rates closer to the estimated cost of service, I believe that maintaining a narrower range of revenue increases produces a fairer result, particularly in light of the affordability challenges I discussed previously.

Q. Do you have any comments regarding the Company's proposed rate designs.

A. For electric rates, yes. My one recommendation would be to adjust the proposed rates for the ER-TD (Residential Optional Time-of-Day Service), ED-1 (Controlled Space Heating Service), and EW-1 (Controlled Water Heating Service) rate schedules so that the overall revenue increase for these customers more closely aligns with the adjustment to the default residential rate, ER-1. While I understand the reasoning for SWLP's rate proposals for these classes, as they more closely match the COSS for these classes, the accuracy of the typical embedded COSS is severely limited in instances where the number of customers in a class is very small, in particular when the usage per customer in that same class is also very small. As such, it is important to not equate precision with accuracy, when it comes to the ER-TD, ED-1, and EW-1 classes as they all have fewer than 120 customers enrolled.

Q. Do you have any recommendation for how the Commission should allocate any adjustments to utility revenue requirements in the final rate design?

A. Yes. I recommend that the Commission allocate the effect of any final revenue requirement adjustments to the classes on a pro-rata basis, with those class-level revenue adjustment being reflected through volumetric rates.

Q. Does that conclude your directtestimony?

A. Yes.