

CUB Reporter

Citizens' Utility Board Newsletter • FALL 2004



WE ENERGIES TRIES TO SOCK IT TO CUSTOMERS

CUB is active in two separate cases before the Public Service Commission of Wisconsin (PSC) involving We Energies.

The first involves We Energies' \$600 million deal with the Environmental Protection Agency (EPA) to comply with federal clean air laws by installing pollution control equipment on many of its power plants. CUB intervened to lower the costs of these power plant improvements through a new financing mechanism, and is now working to stop any unreasonable charges.

Next, We Energies wants \$85 million in 2005 largely to recover costs associated with recently approved power plants in Port Washington and Oak Creek.

CUB Works to Reduce cost of We Energies Pollution Controls by 32%

After getting caught violating federal law, We Energies and its utility subsidiary Wisconsin Electric Power Company tried to profit by making ratepayers foot the bill for their mistake with interest. CUB came up with a mechanism that cleans up the plants and protects ratepayers. Now We Energies is trying to sneak extra clean up costs into the proposal.

Last year, the U.S. Environmental Protection Agency (EPA)

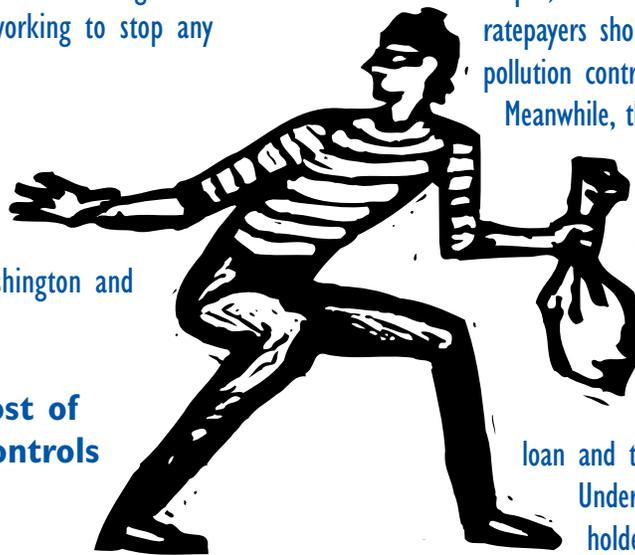
discovered that We Energies had spent the last twenty years flouting the Clean Air Act by illegally spewing out "massive amounts" of pollution from their coal plants that is associated with "increased sickness and mortality from lung disorders..." EPA's case was so strong that We Energies agreed to spend \$600 million to fix the problem rather than argue the case in court.

In April, the Public Service Commission decided that ratepayers should pick up the costs for the new pollution control equipment required by the EPA.

Meanwhile, the Wisconsin legislature approved a proposal that takes advantage of a new financing mechanism: environmental trust bonds. Traditionally when utilities borrow money, they include costs to pay their shareholders a rate of return. Rates are then increased to pay off the loan and to provide a return to shareholders. Under environmental trust bonds, shareholders give up earning a rate of return.

In this proposal, customers would save \$175 million over the 15 years to pay off the bonds. CUB worked with legislative leaders to pass legislation allowing utilities to use environment trust bonds.

But, that's not the end of it.



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•
www.wiscub.org
608.251-3322
Staff@wiscub.org



We Energies ...

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We Energies tried to include \$35 million in clean-up costs for manufactured gas plants into this proposal. The contaminated waste from these plants was created in the 1800s and early 1900s. CUB argued that that these costs should not be paid for with environmental trust bonds because ratepayer costs would be increased. The Commissioners agreed with CUB's position and removed these costs from We Energies proposal.

We Energies Rate Case for 2005

We Energies has applied to the PSC to increase electric rates by \$85 million, or 4.5%, beginning January 1, 2005. The requested increase would cover costs for the ongoing construction of the two 545 megawatt natural gas fired power plants at the Port Washington Generating Station and construction costs for Unit 1 of the coal fired Oak Creek Power Plant at Elm Road. The bill impact of the proposed rate increase on a typical residential electric customer would be an increase of \$2.76 per month.

In this case, CUB and its experts, the law firm of Cullen, Weston, Pines and Bach and utility experts La Capra Associates, are working to ensure that costs are properly distributed between residential, commercial, and industrial customers. Also, CUB is questioning the fairness of We Energies request for payment of \$9 million in direct costs associated with the leases for the new power plants, and whether or not We Energies energy efficiency procurement plan will result in energy savings for residential ratepayers.



WPS Weston 4 Coal Plant and Rate Case for 2005

CUB has been busy with two cases before the Public Service Commission of Wisconsin (PSC) involving Wisconsin Public Service (WPS).

The first involves CUB's opposition to WPS' proposal to build a coal plant at their Weston 4 site. The PSC approved of the plant despite the economic analysis being flawed.

In the second case, CUB is working to convince the PSC that WPS customers deserve a 6% decrease in electric rates rather than a 10% increase proposed by WPS.

PSC Approves WPS Weston 4 Coal Plant

Relying on a sloppy utility analysis, on September 23 the PSC approved a proposal for a new 515 megawatt coal-fired power plant to be built near Wausau.

In testimony and legal briefs submitted to the PSC earlier this year, CUB criticized the analysis performed by WPS, a utility subsidiary of WPS Resources, for failing to include pollution control equipment and new transmission lines in their estimate of the costs for building the proposed power plant know as Weston 4.

By approving this coal-fired power plant, the PSC let ratepayers down. The PSC

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WPS Rates...

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should have ordered WPS to provide a complete estimate of the cost of building and operating this proposed coal plant.

CUB also criticized WPS for failing to analyze the risks to ratepayers of being forced to buy power from yet another coal-fired power plant, a technology which causes damage to public health and the environment through the mining of coal and the emission of millions of tons of pollution that contribute to acid rain, smog, mercury poisoning, and global warming. Future laws to protect our health and the environment from coal mining and burning will likely make electricity from coal-fired power plants, such as Weston 4, more expensive, yet these risks were not factored into the analysis performed by WPS.

By failing to include the costs of pollution equipment, transmission lines, and the risk from future regulatory protection costs, the analysis performed by WPS tilted in favor of a coal burning power plant and discriminated against energy efficiency and renewable energy.

Although its not unusual for utilities to perform studies that favor power plants over energy efficiency and renewable energy, CUB is very concerned that the PSC accepted this flawed analysis and approved a large, coal-fired power plant.

CUB hopes that the energy planning improvements announced recently by the PSC will allow it to scrutinize utility power plant and power line proposals, so that only the facilities needed to provide reliable electricity service are built, while sufficient investments are made in energy efficiency and renewable energy.

CUB Calls For Major Electric Rate Decrease For WPS Residential Customers

At a public hearing Tuesday October 5, 2004, CUB executive director Charlie Higley called on the PSC to reject a request by WPS to increase electric rates \$69.8 million (10%) and increase natural gas rates by \$18.2 million (4.5%) and instead order a 6% decrease for residential electric customers.

To insure that residential customers pay no more than their reasonable share of utility costs, CUB utility experts thoroughly reviewed electric and natural gas cost of service studies. In direct testimony filed with the PSC, CUB experts concluded that, "... residential and small farm customers should receive a rate decrease rather than the rate increases proposed by WPS." An electric rate decrease of 6% would reduce the electric bill of a typical residential customer of WPS by \$3.50 each month or \$42 annually.

CUB's testimony clearly shows that working families deserve a rate decrease rather than another increase. It is time for the PSC to step up for the people of Wisconsin and keep WPS from digging deeper into customer pockets.

If approved by the PSC, the rate request by WPS would force a typical electric residential customer to pay \$6.16 more a month (about \$74 a year) and a typical natural gas residential customer to pay \$3.67 more a month (about \$44 a year). In other words, a typical customer's electric and gas bill would increase by approximately \$120 per year if the PSC approves WPS' request.

Since 2001, WPS customers have endured PSC-approved electric and gas rate increases totaling \$190 million. If the PSC approves this rate increase, that number would jump to \$278 million.

A PSC-comparison of 15 Midwestern utilities shows that WPS already has the fourth highest residential electric bills in the region.

If approved as requested, WPS shareholders would continue receiving a 12% return on equity, one of the highest utility profit margins in the nation. Reducing this rate to the industry average of approximately 11% would save ratepayers \$11 million.

The PSC should not authorize such a high shareholder rate of return when fixed and low-income customers are struggling to decide whether to buy food and medicine or heat their homes this winter.

MGE seeks \$22 Million Electric Rate Hike for 2005: CUB Says Residential Customers Should Receive No Rate Hike

Not only do Madison area customers pay the highest electric rates in Wisconsin, they pay the highest electric rates in the Midwest according to a Public Service Commission (PSC) comparison of 15 Midwestern utilities. Now, Madison Gas & Electric (MGE) wants more. CUB and its experts have prepared a case to make the PSC think hard about socking Madison area customers with another rate increase.

MGE has applied to the PSC for authority to increase electric rates by \$22 million for 2005. If approved, the bill of a typical residential electric customer would increase by \$5.71 a month, or more than 8% beginning January 1, 2005.

CUTTING OFF UTILITY SERVICE DURING THE WINTER IS NOT THE ANSWER

CUB strongly opposes a recent request by Alliant Energy (and its utility subsidiary Wisconsin Power & Light) to the Public Service Commission (PSC) that would allow Alliant to cut off utility service to certain residential households during the winter months.

CUB views Alliant's proposal to cut off utility service as a short-sighted and potentially dangerous attempt to deal with a growing, long-term problem caused by rapidly increasing utility rates and a sluggish economy.

CUB is urging the PSC to reject Alliant's request, and instead open a proceeding that looks at the broader issues of rising energy costs and shrinking household incomes. The PSC should determine why people are falling behind on their utility bills, then develop solutions that allow households to continue receiving vital utility services while paying their bills.

Recently, the U.S. Census Bureau released figures showing that Wisconsin household incomes have stagnated. Yet, Wisconsin has experienced two winters of double-digit increases in utility bills due to higher prices for electricity and natural gas. High energy bills make it more difficult for house-

CUB hired a utility expert to review MGE's proposal to increase residential electric rates. CUB's analysis and testimony before the PSC shows that residential rates should not be increased at all in 2005.

MGE has to be removed from the top of the leader board in what it charges residential customers for electric service. Lower utility bills will mean that shareholders will profit less while MGE's low and fixed income customers will have more choices in paying for daily necessities.

holds to pay for utility services, and those disconnected often face unreasonable payments to have service restored. People without utility service have resorted to dangerous ways to heat or light their households, which have resulted in property damage, injury, and death.

The winter disconnection rules protect household health and safety. Disconnecting certain customers during the winter would only confuse the issue and would not provide a comprehensive fix to the problem; it just puts families who are economically struggling at risk for their health and safety.

CUB notes that there are already procedures in place that permit utilities to disconnect utility service under certain circumstances. Before taking action, CUB believes that the PSC must carefully examine relevant data, such as the number of people that are taking unfair advantage of the winter disconnection rules, how much this is costing the utilities, how much the utilities would recover if the current system is changed, how much it would cost to recover these amounts, and why the current mechanisms are not adequate.

Citizens' Utility Board

(CUB) is a state-wide membership organization incorporated under state and federal laws regulating non-profit groups.

The purpose of the organization is to:

1. ensure effective and democratic representation of residential, farm and small business utility customers before regulatory agencies;
2. ensure effective and democratic representation of residential, farm and small business utility customers before the legislature and other public bodies; and
3. provide education on utility service costs and on the benefits and methods of energy conservation for consumers.

Citizens' Utility Board

16 N. Carroll St., Suite 720
Madison, WI 53703



608.251.3322
608.251.7609 fax
800.657.4727



<http://www.wiscub.org>
staff@wiscub.org



New Commissioner Faces Energy and Telecom Challenges

On September 3rd 2004, Governor Jim Doyle appointed state senator Mark Meyer (D - La Crosse) to replace Ave Bie and join Chair Burnie Bridge and Robert Garvin as commissioners at the Public Service Commission of Wisconsin (PSC).

Meyer, a La Crosse native, has been a state senator for four years after spending six years in the state Assembly.

Meyer joins the PSC in the midst of alarming increases in electricity, natural gas, and telecommunication services rates. The PSC has allowed electricity rate increases of over 30 percent since 1997 and utility profits are at their highest levels ever. In addition, most of the state's utilities are building new power plants and power lines, which may drive rates even higher, putting a larger burden on the monthly budgets of households and small businesses.

CUB hopes that Commissioner Meyer will protect consumers by strengthening the Focus on Energy program, Wisconsin's statewide energy efficiency program. Energy efficiency is the best strategy for protecting households and businesses from rate increases.

CUB will request Commissioner Meyer's assistance in restoring Wisconsin's energy planning process. PSC Chairperson Burnie Bridge has greatly improved the Commission's "strategic energy assessment," but more is needed to make sure the right power facilities are built at the right time and place so

that Wisconsin ratepayers pay reasonable rates while minimizing impacts on public health and the environment.

CUB hopes that Commissioner Meyer will oppose all efforts to deregulate Wisconsin's electricity system, another culprit responsible for increasing energy costs. Power plants and power lines owned and operated by Wisconsin-based utilities strongly regulated by the PSC best serve Wisconsin ratepayers. Any efforts to deregulate Wisconsin's electric utilities could expose ratepayers to the same shenanigans that manipulated California's electricity system and stole at least \$45 billion from California ratepayers.

Wisconsin is at a crossroads with respect to telecommunications and Commissioner Meyer is in a position to protect the interests of the states telecom customers. With telephone service largely deregulated, competition between providers is often the only force working to improve service and reduce rates. The PSC must make sure that competition between providers for local telephone service won't disappear, which would leave consumers with no option but to purchase standard telephone service from an unregulated monopoly.



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CUB Seeks Board Members

Attention CUB Members—We're seeking nominations for the CUB Board of Directors!

Do you share our vision that ratepayers need a strong voice to ensure we receive safe, reliable utility services at reasonable rates? Would you like to work with other citizen activists to provide vision and oversight of CUB activities?

We're looking for nominees for the CUB Board that have skills in:

- Community Action
- Energy Policy
- Finance
- Fundraising
- Government Affairs
- Human Resources
- Law

- Marketing
- Nonprofit Management
- Strategic Planning
- Telecommunications Policy

If you're interested in serving on our board, please submit your resume along with answers to the following two questions to higley@wiscub.org, or mail to CUB, 16 North Carroll Street, Suite 720, Madison, WI 53703.

Why would you like to be on the CUB board and what do you hope to accomplish during your 3-year term? (200 words maximum)

What skills and experience would you bring to the board? (100 words maximum)

