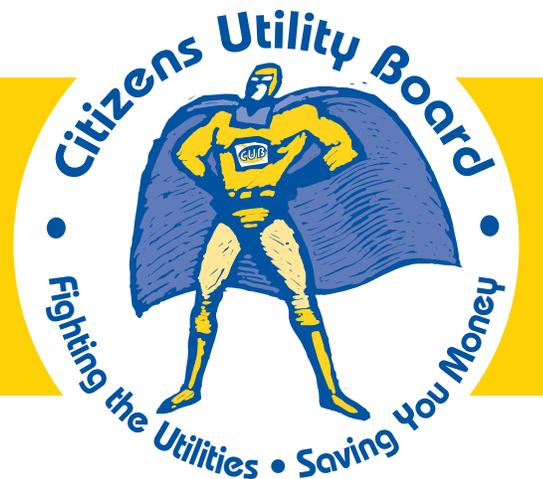


CUB Reporter

Citizens Utility Board Newsletter • SPRING 2006



Smart Energy Bill Passes State Senate

CUB's top legislative priority is to pass SB 459, the energy bill based on the recommendations from Governor Doyle's Task Force on Energy Efficiency and Renewables, on which CUB participated. This important piece of legislation is a critical component to a strong and stable energy future in Wisconsin.

On February 21, 2006, SB 459 passed the State Senate with very strong bipartisan support, on a vote of 32 to 1. As this edition of the CUB Reporter goes to press, the bill is heading to the State Assembly and, if passed there, on to the Governor for signing into law.

Increasing the energy efficiency of Wisconsin homes and businesses, and increasing the amount of energy produced by renewable resources, will reinvigorate the state's economy, improve the welfare of its residents, and help protect the environment.

Senator Rob Cowles (R-Green Bay) introduced SB 459 which would strengthen Wisconsin's statewide energy efficiency program known as Focus on Energy. Over the past several years nearly \$100 million has been diverted from Focus on Energy to reduce the state's budget deficit, even though these funds were collected from utility ratepayers specifically for energy efficiency efforts. These budget raids created an unfair tax on utility customers. SB 459 would protect the funds for Focus on Energy, which means that Wisconsin citizens can receive all the benefits of making our homes and businesses more energy efficient: Each dollar invested in energy efficiency returns nearly 6 dollars to Wisconsin in economic and environmental benefits.

SB 459 reflects many of the recommendations of Governor Doyle's bipartisan Task Force on Energy Efficiency and Renewables. CUB actively participated on the Task Force along with Democrats and Republicans from the Senate and the Assembly, utilities, labor unions, environmental groups, and business associations. The Task Force recommendations included:

Recommendations to Increase Energy Efficiency in Wisconsin

Reform the structure of the statewide energy-efficiency program known as Focus on Energy (also called "Public Benefits"). The PSC would set funding levels and energy-efficiency targets and the Department of Administration would oversee the daily administration of the program and allocation of its funds.

At least annually notify customers of the benefits and costs of Focus on Energy and any utility-administered programs that impact them.

Better integrate Focus on Energy with the application of the Energy Priorities Law and the PSC's Strategic Energy Assessment.

Update and improve the state's commercial energy codes.

Establish either a goal or requirement for state agencies to establish "beyond code" energy-efficiency policies for new and existing state facilities. Also require state agencies to purchase energy-efficient products and appliances.

Recommendations to Increase Renewable Energy Use in Wisconsin

Establish a new standard for renewable energy use in the state, averaging 10% statewide by 2015.

Establish a target for state agencies to purchase at least 10% of their electricity from renewable resources by 2006 and at least 20% by 2010.

Create sales and use tax exemption for customer-owned renewable energy systems such as small wind turbines, solar panels and solar water-heating services.

Encourage the research and development of renewable energy systems.

Now we need the same kind of bipartisan support in the State Assembly to pass this critical energy bill. Contact your state representative and ask them to support SB 459 or its companion legislation AB 841. Call the legislative hotline: 1-800-362-9472 or go to the CUB website (www.wiscub.org) for more information.

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From the Executive Director

During 2005, all of Wisconsin's largest utilities asked the Public Service Commission for permission to charge higher electricity and gas rates. This continues an 11-year trend: Since 1995, residential electricity rates have increased by about 40% for Alliant Energy/Wisconsin Power & Light, 80% for Madison Gas & Electric, 40% for We Energies/ Wisconsin Electric, 73% for Wisconsin Public Service, and 25% for Xcel Energy/Northern States Power. In just 10 years, electric rates charged by Wisconsin utilities have gone from the lowest in the upper Midwest to some of the highest.

Meanwhile, prices for natural gas have more than doubled since 1995. Wisconsin households have seen their natural gas heating bills rise by at least 20% each year for the past three years.

For comparison, inflation was about 30% between 1995 and 2005. Therefore, electric and gas bills are eating a much larger portion of a household's monthly budget, making it even more difficult for households to make ends meet.

Every time a utility has asked for higher rates, CUB has been at the PSC, working to protect your interests. In the past year alone, our efforts have saved you and your fellow ratepayers \$149 million. Our efforts have kept your rates from rising faster than if the utilities had gotten what they asked for. This newsletter summarizes the many cases in which CUB represented your interests at the Public Service Commission.

We're also leading the charge for strengthening the state's energy efficiency program, Focus on Energy. Making your home or business more energy efficient is the best defense against rising energy bills.

The budget for Focus on Energy has been under attack by misguided politics. However, CUB, the utilities,



business associations, unions, and environmental groups agree that legislation must be passed this year to strengthen Focus on Energy, so that more households and business can take advantage of this program to save energy, reduce monthly energy bills, create Wisconsin jobs, and reduce impacts on the environment.

If you haven't done so, we urge you to contact Focus on Energy to make your home or business more energy efficient. Call 1-800-762-7077, or visit their website www.focusonenergy.com.

While you're on the Internet, be sure to check out CUB's new website at www.wiscub.org. Our new website not only has more information about our battles against the utilities, but it also allows you to securely renew your CUB membership or to make a contribution to CUB on-line.

As a CUB member, you'll be glad to know that new members are joining CUB every day. Membership has increased by 17 percent since 2003. Nevertheless, your support is more crucial than ever, especially since more rate increases are likely in the coming years.

Thank you for your support,

-Charlie Higley-

CUB Fights For You at the PSC

CUB fights in many arenas; the courts, the legislature – and most of our fights, by far, occur at the Public Service Commission (PSC). Each year nearly every utility files a rate case. Often utilities are asking for an increase in rates, sometimes it's for increases in fuel costs, building new power plants, selling power plants, or any one of the other schemes they've come up with to make more money.

Whenever a utility files a case, CUB evaluates the issues involved and, often, enters the case on behalf of ratepayers.

These cases are complicated; involving issues on utility profits, long-term energy projections, environmental considerations, competing customer interests (industrial rates vs. residential rates), and a host of others that require expert testimony and legal representation. Most cases involve multiple issues making each a battle to protect customer rights against excess utility profits.

Here are some of our current cases and the issues involved that CUB is working on:

Regional Transmission Access Investigation, Docket 137-EI-100

In February, 2005 the PSC opened an investigation to evaluate the capability of Wisconsin's transmission system to move energy throughout the state. The American Transmission Company (ATC – the private company created to develop and maintain electric power lines) filed a report that identifies its ability to import and move energy in Wisconsin.

The primary conclusion of the PSC's draft report (which CUB agrees with) is that not enough is known at this time to recommend construction of any of the 345 kilovolt transmission lines studied by ATC. PSC staff favors a more detailed review that would include whether proposals for new power plants would affect the need for such a line, and the need to coordinate

Wisconsin's review with neighboring states as provided for in the federal energy policy act of 2005.

WEPCO 2006 Test Year Rate Case, Docket 05-UR-102

In June, 2005 WEPCO filed its proposal to increase natural gas rates by approximately \$80 million.

In July, 2005 WEPCO filed its proposal to increase electric rates by approximately \$144 million.

WEPCO has since increased its electric rate request by \$84 million due to increased fuel costs. WEPCO's total rate increase request stands at about \$247 million.

Among other issues, through expert testimony and legal briefs CUB argued:

- To reject WEPCO's earnings cap proposal in favor of using any excess WEPCO profits to pay off its deferred accounts which total in the tens of millions of dollars.
- Reduce WEPCO's rate of return from 12.2% to 10.5%, which would result in a reduction of \$70 million in WEPCO profits.
- WEPCO should work with PSC staff to set goals for its renewable energy projects.
- Residential customer bills should rise less than proposed by WEPCO and industrial rates should rise higher.

NSPW 2006 Test Year Rate Case, Docket 4220-UR-114

In June, 2005, NSP-Wisconsin filed a request to increase electric and natural gas rates for the 2006 test year. This is NSPW's first base rate change request since 1998. NSPW requested a \$41 million (10.3%) increase in electric rates and a \$7 million (4.4%) increase in natural gas rates. PSC staff increased the amounts to \$45.4 million for electric rates and \$5.8 million for natural gas.

CUB filed legal briefs arguing issues including:

- Reduce NSPW's rate of return from 11.9% to 10.25%, saving

\$9.6 million in electric charges and \$1.3 million for gas.

- Reduce NSPW's equity level from 56% to 51%, saving \$3.5 million.
- Reject cost allocations that would hit residential customers with 14.2% rate increase and limit increases to between 8% and 10.6%.

WPL Fuel Rate Request, Docket 6680-UR-114

In August, 2005, WP&L filed for a \$41.4 million (4.8%) increase in electric rates due to increases in fuel costs for the month of July.

CUB has challenged the legality of the August request.

The PSC approved an interim increase in October, 2005.

In November, 2005, WP&L requested a second increase of \$55 million due to the unforeseen consequences of Hurricanes Katrina and Rita.

CUB is fighting this "interim on an interim" request based on the record of evidence that shows that WP&L could have provided updated information on fuel costs at the initial interim hearing. Also, such a request would reduce a utilities incentive to reduce fuel costs, as well as increase the number of rate cases filed.

Arrowhead Transmission Line, Docket 05-CE-113

CUB and its expert met with PSC staff regarding concerns that the Arrowhead Transmission Line may not be able to carry the power it was designed to carry, resulting in black-outs and damage to power plants. Estimates put costs at \$100 million to repair the flaws.

Generic Investigation into Cost of Service Principles, Docket 05-EI-137

In July of 2005, the PSC asked for comments on how to narrow cost of service and rate design issues in rate cases. CUB filed an extensive report addressing these complex issues.

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CUB Launches New Website

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

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In the fall of 2005, CUB launched its new and improved website. Our goal is to maintain a website that provides the information you need to follow CUB's fights, our victories and related information so you can see what your local utility is trying to get away with. If you haven't visited yet, or if it's been a while, go to www.wiscub.org and check out all the new information.

At the site, you'll quickly find information about our current case work before the PSC (including links to the PSC's own electronic case files where you can examine every public document in utility cases!), and information about CUB case victories.

You can also find our ongoing Action Alerts, with background information on the issue and action steps you can take to help win more victories. You can sign up for CUB's E-newsletter, issue emails and other information about our work in Wisconsin.

We also provide CUB press releases and state press articles about CUB's work and related utility information. You can search the press by utility – making it easier to follow your local utility issues!

And, of course, there are several ways to support CUB financially. You can make a one-time donation, join as a new member, renew your past membership and refer CUB to your friends. Donating to CUB through our website is secure and 100% of your donation goes

immediately to help CUB fight for fair and reasonable utility rates. Just go to the CUB website – first log on (you'll need to register if it's your first time) then click on the "Donate Now" follow the prompts – it's that easy. There are benefits to donating on line:

It's secure.

It's quick and easy for you.

CUB will get your donation immediately (we can put your donation right to work).

It saves money for you and CUB (no stamp, envelope or check).

Our goal is to have a website that provides you with the information you need to hold the utilities, the regulators and the politicians accountable for their actions. We need your continued support and help to win!

The screenshot shows the Citizens Utility Board website interface. At the top, there is a navigation bar with tabs for Home, Donate, Get Involved, News/Info, and Additional Services. Below this, there are several content blocks: a 'Donate Cash' section with links for Planned Giving, Tax Deduction Info, Gift Basket, and My Philanthropy Portfolio; a 'Donate Now!' section with a 'Sign up for free' button; a 'CUB Victories' section featuring a superhero icon and text about fighting for reasonable rates; a 'Donate now' section with a hand holding a coin icon and text about credit card or e-check donations; a 'See What's New at CUB' section with a group of people icon and text about recent press releases; a 'Current CUB Cases' section with a person at a desk icon and text about active cases; and a 'CUB Action Alert' section with a person reading a newspaper icon and text about utility rate increases.

See CUB's New Website at www.wiscub.org

CUB Fights For You in Court

CUB vs. We Energies

CUB, along with Clean Wisconsin and the Sierra Club, remains in a lawsuit in federal court opposing the “consent decree” between We Energies and the U.S. Environmental Protection Agency (EPA) regarding We Energies violation of clean air laws by its failure to add pollution control equipment to its power plants. A study by the EPA linked We Energies power plant pollution to at least 200 premature deaths and countless illnesses in Wisconsin. In the settlement with the EPA, We Energies agreed to pay a \$3.2 million fine and spend \$600 million of ratepayer dollars to upgrade its power plants’ pollution control equipment. CUB is seeking to block the agreement because it gave We Energies 12 years to install the equipment – doing little to reduce the pollution that causes premature death and illness.

CUB vs. WP&L

CUB sided with the PSC in a suit brought against the Commission by WP&L regarding interpretation of the fuel rules. WP&L took the PSC to court when the PSC denied the utility a rate increase based on increases in fuel costs associated with the

shutdown of the Kewaunee Nuclear Power Plant. The PSC originally ruled that to have granted the increase would have violated the long-standing prohibition against retroactive rate making. WP&L sought to have the PSC decision overturned. CUB entered the case in support of the PSC position. The courts sided with CUB and the PSC and ruled against WP&L.

CUB vs. PSC

CUB has joined the Wisconsin Industrial Energy Group (WIEG) in a lawsuit against the PSC for allowing We Energies to keep \$52 million in excess profits – over and above its previously allowed

return rate of 12.2%. CUB wants this money returned to ratepayers. This case stems from a ruling the PSC made regarding excess We Energies earnings from 2001 to 2003. The \$52 million came from merger-related savings when We Energies acquired WICOR. The PSC said We Energies should be allowed to keep the extra income as an incentive to cut costs and be more efficient. CUB is arguing that the PSC decision violates the rules for price increases for fuel costs, which state that costs cannot rise above the authorized profit level. The PSC’s own analysis shows that We Energies exceeded its approved rate of return.

CUB would like to thank all the members that voted in the bylaws revision vote last fall. By a nearly unanimous vote, the proposal was passed. If the Internal Revenue Service approves the change, the two separate CUB organizations will be combined into one organization and all donations to CUB will be tax-deductible. We will inform you as soon as possible of the IRS’s decision. Until then, you may still designate your donation to be used for educational purposes (CUB-PIF, a tax-deductible gift) or for advocacy and lobbying (CUB, non-tax-deductible).

CUB Fights at the PSC

continued from page 3

CUB is concerned that industrial customers are trying to reduce their share of the costs of the massive amount of new electric infrastructure being built in Wisconsin by shifting the costs to residential customers.

PSC Rulemaking on Fixed Financial Parameters for Generation, Docket 1-AC-217

The PSC opened a docket to set rules for the information utilities must file and the process the PSC will use to set a utilities’ fixed rate of return (profit) on new power plant construc-

tion or the purchase of a power plant.

CUB’s comments included a requirement that any review of a utilities’ fixed profit be part of a contested case proceeding to ensure that the financial elements are reviewed in combination with the need for the power plant and whether the plant is the most cost effective supply resource for the utility.

Recently completed Cases and CUB victories:

WPS 2006 Test Year Rate Case, Docket 6690-UR-117

CUB saves \$30 million!

In April 2005, WPS filed its rate case for the 2006 test year. WPS requested a \$90 million electric rate increase (11.4% on average) and a \$10 million gas rate increase (2% on average). CUB previously argued that WPS should immediately return to its customers \$127 million from the sale of the Kewaunee Nuclear Power Plant and related non-qualified decommissioning funds.

CUB hired a nuclear engineer and

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CUB Fights at the PSC

continued from page 3

attorneys that argued that WPS mis-managed the operation of the Kewaunee nuclear plant leading to a nearly 5 month outage in 2005. CUB testimony detailed a long history of failures to correct engineering and operational problems at the plant.

CUB proposed a new rate design mechanism that would enable residential customers to reduce their bills as well as reduce the need for the utility to build new power plants or purchase power.

CUB victories in this case include:

WPS will refund \$107 million of Kewaunee Nuclear Power Plant decommissioning funds over a two year period rather than the utilities' requested 5 year time frame.

WPS shareholders will pay 50% of the loss on the sale price of the Kewaunee plant due to company imprudence in the 2005 plant shutdown – saving approximately \$6 million.

WPS shareholders must share in the cost of the 2005 plant shutdown – saving approximately \$12 million.

The PSC reduced WPS's capital structure common equity range – saving approximately \$5 million.

The PSC reduced WPS's return on equity reducing electric rates by approximately \$5 million and gas rates by approximately \$1.5 million.

The PSC agreed that WPS residential customers should shoulder smaller rate increases than industrial and commercial customers.

SBC Basic Local Exchange Deregulation, Docket 6720-TI-196

SBC applied to the PSC for authority to remove the cap on prices that currently exist for basic local exchange service in the local exchanges that include the majority of SBC's customers. SBC claimed that sufficient competition exists to remove price caps.

CUB's expert witness argued that there is not sufficient competition in Wisconsin to justify eliminating price

caps on basic local service.

The PSC approved SBC request to deregulate local exchange service with conditions, including 1) limiting SBC increases in 17 exchanges to no more than \$2.50 in each of the next two 12 month periods, beginning 12/1/05; and 2) SBC may not increase other rate elements for stand-alone basic local exchange service until 12/1/07.

WEPCO's Fuel Rule Request 2005, Docket 6630-UR-111 CUB saves \$7 million!

In February, 2005 WEPCO applied to the PSC for a fuel cost increase of \$115 million (6% overall increase in retail electric rates) with a larger increase on residential customers because WEPCO appears to want to shift a larger portion to them. In March of 2005, the PSC approved the increase on an interim basis.

CUB's expert witness argued against many aspects of the WEPCO proposal including WEPCO financial reserve margins (\$7 million), fuel costs associated with coal plant operation (\$7 million), and WEPCO over-earnings from synergy savings from its merger with WICOR (\$52 million).

The PSC agreed with CUB on the question of coal fuel costs, saving ratepayers \$7 million. Ultimately, the PSC approved a final fuel cost increase of \$122.6 million

MGE 2006 Test Year Rate Case, Docket 3270-UR-114

In April 2005, MG&E filed its rate case for the 2006 test year. The major elements of their request were a \$14.8 million increase in electric rates (about 5% on average), \$3 million increase in gas rates (about 1.4% on average) and an 11.5% rate of return.

CUB disputed MG&E's electric cost of service study and proposed the development of a new rate design to assist residential customers in reducing their bills and reduce pressure on MG&E to build new power plants or purchase power.

The PSC approved a rate of return of 11% - splitting the difference between CUB's recommendation of 10.5% and MG&E's request of 11.5%. The PSC also approved and applauded CUB's proposal to work with MG&E to develop a new electric rate design that will reduce residential customer bills.

Due to an increase in fuel costs, the PSC approved an increase of \$35.7 million in electric rates (up from the requested \$14.8 million) which will increase residential electric bills by \$7.50 a month and gas bills by \$1.50 a month.

WP&L Rate Case for 2005-06 (Split Test Year), Docket 6680-UR-114

On January 31, 2005, WP&L requested a \$48 million (6%) increase in electric rates and a \$5 million (1.5%) increase in natural gas rates to go into effect on July 1, 2005 and stay in effect until June 30, 2006.

Among other issues, CUB argued against WP&L's cost of service and rate design, high profit margin, and bill payment and credit collection practices. CUB also argued that the nonqualified decommissioning trust funds (associated with the Kewaunee Nuclear Power Plant) should be returned to ratepayers immediately upon the closure of the Kewaunee sale (as well as any net gains from the sale of the plant).

The PSC decided the case at the end of June, 2005. The major elements of the decision are:

An electric rate increase of \$18.6 million (2%) rather than the \$48 million (6%) requested by WP&L.

A natural gas rate increase of \$2 million (0.8%) rather than the \$5 million (1.5%) requested by WP&L.

Using \$56 million of the nonqualified decommissioning trust funds over the next two years to reduce WP&L's revenue requirement.

Approved a return on equity of 11.5% rather than the 12% requested by WP&L.



**CUB
saves \$1000
for every
\$1 contributed!**



CUB board member, Margot King and her husband Jim, hosted a CUB house party in the fall of 2005 at their home in Platteville. Charlie Higley, CUB Executive Director (above left), describes CUB's plans and programs to enthusiastic gathering of supporters.

*As you are making your estate plans,
please keep CUB
in mind.*

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**CUB Saved \$149 million in 2005!
That's \$1,000 For Every \$1 Contributed**

Change of address? Please print changes on mailing label and return to Citizens' Utility Board.

Call for CUB board of Directors Nominations

Attention CUB members – the CUB board of directors is seeking nominations for new board members.

Nominees should share CUB's commitment that ratepayers deserve a strong voice to ensure safe, reliable utility service at reasonable rates. Nominees must be current CUB members.

Particularly strong nominees will possess skills in:

- Fundraising
- Finance
- Human Resources
- Marketing
- Nonprofit Management
- Strategic Planning

If you're interested in serving a 3-year term on the CUB board of directors, please submit your resume

and your response to the two following questions, by May 1st 2006, to higley@wiscub.org or mail to:

Charlie Higley, Executive Director
Citizens Utility Board
16 N. Carroll St., Suite 720
Madison, WI 53703

Questions:

- What skills and experience would you bring to the board? (200 words maximum)
- Why do you want to be on the CUB board of directors and what do you hope to accomplish during your 3-year term? (200 words maximum)

