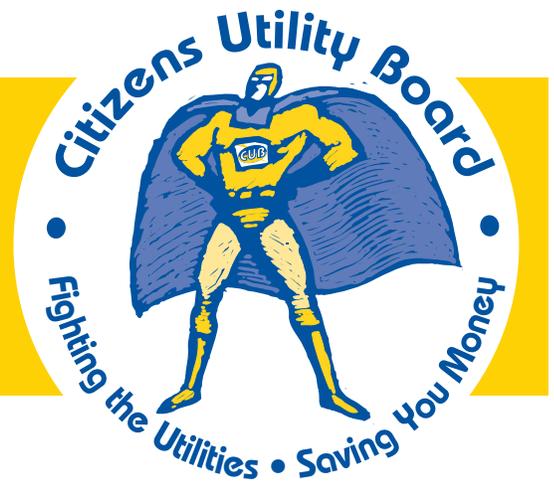


CUB Reporter

Citizens Utility Board Newsletter • SUMMER 2006



Arrowhead Transmission Line Threatens Blackouts

In May CUB asked the Public Service Commission of Wisconsin (PSC) to investigate flaws in the design of the Arrowhead-Weston transmission line that could result in damage to Wisconsin's power plants and cause blackouts in the upper Midwest.

In a letter to the PSC, CUB contended that as a result of engineering mistakes by utilities, the Arrowhead line contains serious flaws in its electrical design which have never been eliminated even as line construction proceeds today. The line as designed is undersized in capacity and will not perform as expected and as ordered by the PSC in its decisions regarding the line in October 2001 and December 2003. Upon investigation, CUB urged the PSC to enforce compliance with its orders and require the utilities to eliminate the flaws from the Arrowhead project.

CUB contended that unless design flaws in the Arrowhead line are corrected, the line will not work properly when other events occur, particularly an outage of the King-Eau Claire-

Arpin (K-E-A) transmission line, the only other high-capacity line connecting Wisconsin directly to Minnesota. The failure of the Arrowhead line to work properly when called upon could lead to major damage to power plants and cause region-wide blackouts in the upper Midwest.

"The Public Service Commission needs to investigate the flaws in the design of the Arrowhead transmission line and order the utilities to ensure that the line will prevent blackouts, not cause them," said Charlie Higley, CUB's executive director.

CUB has been involved in proceedings at the PSC regarding the Arrowhead line since it was first proposed by Wisconsin Public Service Corporation (WPS) and Minnesota Power Company in 1999. American Transmission Company became a co-applicant to the project in 2001. The PSC approved the project in October 2001 and again in December 2003. The line is being constructed by WPS under contract

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Countdown to Catastrophe

1998	Several Wisconsin utilities form the Wisconsin Reliability Assessment Organization (WRAO) in the wake of power crisis in 1997 & 1998.
June 1999	WRAO proposes building the Arrowhead-Weston line at an estimated cost of \$125 million.
Oct. 1999	Douglas County Board votes in opposition to the line.
Nov. 1999	Wisconsin Public Service and Minnesota Power apply to the Public Service Commission (PSC) for a construction permit to build the line.
Jan. 2001	The American Transmission Company (ATC) is created; in April 2001 ATC becomes a co-applicant for the Arrowhead-Weston line.
Oct. 2001	The PSC issues its first order approving construction of the Arrowhead-Weston line – cost climbs to \$166 million.
Nov. 2001	CUB sues the PSC for authorizing construction of the Arrowhead-Weston line
Nov. 2002	Estimated cost of the line increases to \$396 million, requiring the PSC to re-open its investigation of the Arrowhead-Weston line.
July 2003	CUB's transmission expert proposes the safer, less expensive, and more reliable King-Weston line as an alternative to the Arrowhead-Weston line.
Dec. 2003	The PSC approves construction of Arrowhead-Weston at the higher cost of \$420 million.
Feb. 2005	CUB's expert presents a 16-page violation complaint to the North American Electric Reliability Council (NERC) detailing the deficiencies in the Arrowhead-Weston powerline. The NERC dismisses the complaint without investigation.
May 2006	CUB urges the PSC to enforce compliance with its orders and require the utilities to eliminate the flaws from the Arrowhead project.

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From the Executive Director

I'm happy to report that Governor Jim Doyle signed into law legislation that will greatly strengthen Wisconsin's statewide energy efficiency program known as Focus on Energy, and will increase the amount of electricity derived from renewable resources such as wind machines and bioenergy systems.

Governor Doyle signed the legislation on March 17. With the governor were state Senator Rob Cowles (R-Green Bay) and Representative Phil Montgomery (R-Ashwabenon), the chairs of the energy & utility committees in the Senate and Assembly, who authored the legislation and got it through their respective chambers. The legislation (now 2005 Act 141) made it through the Senate and Assembly with only one vote opposed, showing the strong bipartisan support.

Why were Republicans and Democrats willing to work together on this legislation when most issues involve nasty partisan fights? First, energy issues are front page news—we're all paying much higher prices for electricity and natural gas than ever before—and the politicians realized something needed to be done.

Second, the political support for this legislation was anchored by the consensus recommendations from the Governor's Task Force on Energy Efficiency and Renewables, of which CUB was a member along with utilities, labor unions, environmental groups, and business associations. It's easier for politicians to support energy legislation when CUB, the utilities, and Wisconsin Manufacturers and Commerce all support it, a very rare occurrence.

Third, policymakers, utilities, and business associations are finally realizing that the best solution to higher energy prices is to make homes, commercial buildings, and appliances more energy efficient. Not only do people save money on their monthly utility bills, but efficiency also reduces pollution from energy production, and creates jobs in the businesses that make and sell energy efficient products. As mentioned, Act 141 will strengthen Focus on Energy, as well as strengthen the state's building codes.



After efficiency, the next best solution to higher energy bills is to use more renewable energy. Electricity produced from wind machines is now competitive with generating electricity from coal, nuclear or natural gas. Wind electricity will help keep electricity rates stable, because the "fuel" is free, whereas prices for coal, natural gas, even uranium are climbing rapidly. Act 141 requires that 10 percent of the electricity used in Wisconsin come from renewable sources by 2015.

The passage of Act 141 is great news in an otherwise costly year, in which prices for fossil fuels will likely remain near all-time highs. Please take advantage by making sure your home or business is as energy efficient as possible by calling Focus on Energy at 1-800-762-7077, or visit www.focusonenergy.com.

Changes at CUB

Phil Kerckhoff, CUB's Director of Development and Communications, has taken a position with Planned Parenthood as a Development Officer.

Since Phil's return to CUB in 2004 (first as a contractor, then employee), Phil has helped increase CUB's membership by almost 20 percent. He also helped revise the newsletter and the website.

As a consultant, Phil will continue providing development services to CUB for the remainder of 2006 and hopefully beyond.

Best of luck to Phil at his new job, and for our continued collaboration.

Major New Cases in 2006

In the first few months of 2006, several utilities filed major cases at the Public Service Commission (PSC). A majority of the cases involve setting the rates that certain utilities will be permitted to charge their customers for energy and a review of overcharges made by some utilities. Below are the outlines of several of the major new cases CUB began working on this year.

MG&E Fuel Cost - 3270-FR-100

On February 27, 2006, Madison Gas & Electric (MG&E) filed its January 2006 monitored fuel cost report, which showed that MG&E was overcharging its customers for fuel costs. On March 8, 2006 the PSC ordered MG&E to implement a credit of \$.00069 per kilowatt-hour on all retail electric sales. The PSC also ordered that MG&E's electric rates set in the final decision be subject to refund, with interest at 11%, pending a full review of MG&E's 2006 fuel costs.

On March 20, 2006, CUB participated in a prehearing conference to set the issues and schedule for the proceeding and identify persons that will participate as full parties. Following the prehearing conference CUB began negotiations with MG&E to develop an agreement that would protect ratepayer interests and avoid the need to go to hearing.

WPS Fuel Cost - 6690-FR-100

On February 22, 2006, Wisconsin Public Service filed its January 2006 monitored fuel cost report, which showed that WPS was overcharging its customers for fuel costs. On March 8, 2006 the Commission ordered that WPS's electric rates be set subject to refund, with interest at 11%, pending a full review of WPS's 2006 fuel costs.

On March 20, 2006, CUB participated in a prehearing conference to set the issues and schedule for the proceeding and identify persons that will participate as full parties. Following the prehearing conference CUB began negotiations with WPS to develop an agreement that would protect ratepayer interests and avoid the need to go to hearing.

WPL Rate Case (2007 Test Year) - 6680-UR-115

On March 17, 2006 Wisconsin Power & Light (doing business as Alliant Energy) filed an application to increase its electric and natural gas rates for 2007. WPL is requesting authority to increase electric rates by \$87.6 million, 8.6%, and natural gas rates by \$8.7 million, or 2.9%. The projected revenue requirement is based on an 11.2% rate of return and on the assumption that WPL will receive approval for the entirety of its application for a fuel cost increase in the amount of \$98 million currently under review by the Commission. It is also based on the assumption that WPL will seek and receive approval for a \$52 million fuel cost increase to be filed later in 2006.

CUB has entered the case and will be providing expert testimony on topics such as return on equity; payroll incentive plans for WPL employees; salaries of WPL's top executives; cost of service and rate design; the costs of purchasing power in the wholesale (MISO) market; and the company's hedging practices for natural gas purchases for generation.

WPS Rate Case (2007 Test Year) - 6690-UR-118

On March 31, 2006 Wisconsin Public Service filed an application to increase its electric and natural gas rates for 2007. WPS is requesting authority to increase electric rates by \$125.1 million or 14.42%, and natural gas rates by \$22.6 million or 3.9%. The projected revenue requirement is based on an 11% rate of return.

CUB has entered the case and will be providing expert testimony on topics such as return on equity; salaries of WPS's top executives; cost of service and rate design; the reasonableness of the company's fuel cost projection methodology; the costs of purchasing power in the MISO market; and costs associated with the Arrowhead-Weston transmission line.

Natural Gas and Coal Procurement and Cost Recovery Practices - 5-UI-110

On March 23, 2006 the Commission opened an investigation into natural gas and coal procurement and cost recovery practices of Wisconsin gas & electric utilities. The investigation may also consider natural gas infrastructure, storage, interstate pipeline capacity, and liquefied natural gas. The investigation will also consider coal procurement costs, including transportation costs, used for electric generation. To start its review the Commission has issued discovery requests to Wisconsin's utilities, including municipal and cooperative utilities. On April 3 CUB was made a party to the proceeding.

CUB will likely provide comments or expert testimony on how utilities could reduce the impact of price spikes caused by volatile natural gas markets.

Strategic Energy Assessment - 05-ES-103

The Public Service Commission of Wisconsin will release a draft of its Strategic Energy Assessment for comment in May or June. The SEA will provide a snapshot of energy needs in Wisconsin through 2012. CUB will work with Clean Wisconsin and RENEW in preparing comments in this case. The goal of CUB's participation in this docket is to determine whether generation and transmission utilities in the state are developing plans that will result in a reliable, low cost and environmentally sound energy supply for Wisconsin. CUB will also make recommendations on how to improve the planning process for meeting the state's energy needs.

PSC Fuel Costs Rules - 05-EI-138

On February 7, 2006, the Commission opened an investigation to determine whether the rule that governs utility fuel costs should be revised. Wisconsin's electric utilities are proposing to revise the rule because it recently resulted in them having to provide refunds to customers due to utilities' over-collection of fuel costs. The utilities are proposing changes to the rule that run counter to Wisconsin's prohibition against automatic

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CUB board member seeks re-election

Mr. Lovett is an attorney with Schober, Schober and Mitchell, where he advises clients on issues of business law, municipal law, nonprofit organizations and real estate & land use. Tim holds a Bachelor of Science degree in Political Science from the University of Wisconsin-Oshkosh where he majored in political science and urban affairs. His continuing education includes a Masters in Urban Planning from the University of Wis-

consin-Milwaukee and a law degree from the University of Wisconsin at Madison. Mr. Lovett has practiced primarily in the legal areas of municipal law and advising on zoning, land use and subdivision issues, as well as providing insurance defense representation.

Tim has been on the CUB Board since January 2002, and is currently Board president.



J. TIMOTHY LOVETT

Major Cases in 2006

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fuel cost adjustments, and that would reduce their incentive to control fuel costs. CUB is participating in the case by providing comments on how the current rule provides benefits to customers, and arguing against major modifications to the rule that would result in utilities being less accountable for controlling their costs.

MISO Energy Markets – 9300-EI-100

On April 11, 2006, CUB began its participation in the Commission's investigation of the MISO energy market. Since April, 2005, MISO has dispatched Wisconsin's electric utilities' power plants. MISO also develops plans for improving the transmission infrastructure in the mid-west and establishes how the cost of transmission improvements should be allo-

cated. Because of the significant impact that participation in MISO has on customer rates, CUB will advocate at MISO and before the Commission to develop policies that will reduce the cost of purchasing power from the wholesale market, and to ensure that the costs of new transmission are paid for by those receiving the benefit of the project.

Arrowhead Transmission Line

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to ATC, which will own and operate the \$420 million line when brought into service in 2008.

Larry Thiele, an independent consulting electrical engineer, authored the letter to the PSC on behalf of CUB. Thiele was hired by CUB in 2003 to provide expert testimony regarding whether the Arrowhead line was properly designed. For the last several years, Thiele has voluntarily continued examination of the design and expected performance of the line. In its letter to the PSC, CUB contended that WPS, Minnesota Power, and ATC (utilities) failed to design the Arrowhead line to comply with industry standards and PSC orders that require a line to perform properly while other emergency

events, known as contingencies, are taking place. For example, should the K-E-A line drop out of service, the Arrowhead line is supposed to handle power flows from Minnesota without causing it or other transmission lines to carry too much power (known as "thermal violations") or to cause unstable power flows that could inflict damage to power plants and cause blackouts (known as "voltage stability violations").

CUB contended that the utilities failed to properly design the Arrowhead line to meet expected contingencies, especially ones that threaten the transmission system's voltage stability. CUB contended that the utilities:

- Failed to design Arrowhead with

enough electrical capacity to prevent voltage stability problems;

- Plan to connect the Arrowhead line to the Minnesota transmission system at the wrong place, which will further aggravate the voltage stability problems caused by the undersized Arrowhead line;
- Failed to initially test for and detect the voltage stability problem in Arrowhead's design, and when eventually discovered, failed to bring these concerns to the attention of the PSC during licensing;
- Failed to perform the proper analyses to determine whether the use of a special transformer, which is intended to partially compensate for

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Smart Energy Is Law

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.

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On March 17 2006, the Smart Energy bill (SB459) was signed into law by Wisconsin Governor Jim Doyle as Wisconsin 2005 Act 141. This is a tremendous victory for Wisconsin ratepayers and environment.

CUB's top legislative priority was 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.

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 will 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. Act 141 will 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.

Act 141 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. Act 141 will:

Increase Energy Efficiency in Wisconsin

- Protect and increase the funding for Focus on Energy to about \$85 million per year (the funding level will be equivalent to 1.2 percent of electric &

gas utility annual operating revenues).

- Update and improve the state's commercial energy codes.
- Establish a goal 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.

Increase Renewable Energy Use in Wisconsin

- Establish a new standard for renewable electricity use in the state, averaging 10% statewide by 2015 (up from 4 percent today).
- 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.

CUB commends the Governor and all the state legislators who worked to make Act 141 law.

Arrowhead Transmission Line

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Arrowhead's insufficient capacity, will actually work to prevent voltage stability problems; and

- Designed Arrowhead in such a way that its operation in emergency conditions will be extremely complicated and prone to failure.

CUB urged the PSC to investigate the design flaws in the Arrowhead transmission line and order the utilities to comply with its orders and with industry standards, otherwise the reliability of Wisconsin's electric system will be threatened by this poorly-designed transmission line.

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CUB board member, Don Wichert (standing right), hosted a CUB house party in the spring of 2006 at his home in Madison.



Charlie Higley, CUB Executive Director (above right), describes CUB's plans and programs to an enthusiastic gathering of supporters.

