



CUB Reporter

Citizens Utility Board Newsletter • Fall 2014

Utilities Seek to Drastically Increase Monthly Connection Charges CUB to Provide an Alternative to the PSC

This year, CUB has faced some of the most radical and unreasonable utility proposals to surface in decades – proposals that would force you to pay an exorbitantly high fixed charge on your monthly electric utility bill regardless of the amount of electricity you use.

You've seen the news reports about the proposals by We Energies (WE), Wisconsin Public Service Corporation (WPSC), and Madison Gas & Electric (MGE) to dramatically increase the monthly fixed charges on your electric bill – the amount you'd pay even if you didn't use any energy at all.

- WE proposes to increase the electric monthly fixed charge in 2015 from \$9.13/month to \$16/month or by 75%
- WPSC proposes to increase its fixed charge from \$10.40/month to \$25/month or by 140%
- MGE proposes to increase its fixed charge from \$10.40/month to \$19/month or by 83%

MGE's original proposal called for a fixed monthly electric charge of almost \$50 in 2016 and could have led to a fixed monthly charge of nearly \$70 by 2017, but MGE backed off its proposals for 2016 and beyond due to CUB's efforts.

These radical and unreasonable utility proposals are symptomatic of changing times in the electric industry.

Utilities have been doing business the same way for a long time.

For a century electric utilities like WE, WPSC, and MGE made money by building centralized power plants and distribution lines, and by selling increasing amounts of electricity.

Customers benefitted from the economies of scale of the "hub and spoke" system so long as their demand for electricity continued to increase.

How we use and produce energy is changing.

Customers in Wisconsin and around the country are using less utility-generated power due to economic conditions, increasingly effective energy efficiency measures, a desire to conserve, and the advance of small-scale renewable energy technology (especially solar photovoltaic systems).

To make up for lost electric sales and to stabilize their revenues, utilities like WE, WPSC, and MGE are proposing to increase the fixed monthly charges on utility bills.

CUB agrees that the utility industry is fundamentally changing and that regulatory policies and business strategies will need to adapt, but CUB does not believe that increasing monthly fixed charges is a fair or reasonable response.

Faced with the radical proposals of Wisconsin utilities that would drastically increase the fixed monthly charges of residential and small business customers, CUB went to work on your behalf before the PSCW.

CUB fights for ratepayers in this changing utility world.

CUB retained a national expert on energy rate design issues and filed testimony and legal briefs before the PSCW stating that WE's and WPSC's proposals to increase the monthly fixed charge for electric service should be denied because they would reduce customers' incentives to cut-back energy use, unfairly increase bills for the utility's smallest residential customers, and unreasonably subsidize larger customers' costs at the expense of lower-usage customers.

In MGE's case, CUB secured the removal of the most harmful elements of MGE's proposal and established a

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From the Executive Director

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



This has been quite a year. As described on the front page of this newsletter, CUB has been fighting some of the most aggressive and harmful utility proposals in decades. For example, three of the major investor owned electric utilities filed applications to massively hike the fixed portion of customers' electric and natural gas rates. The parent company of the largest electric utility in the state (We Energies) has applied to acquire the parent company of another large electric utility in Wisconsin (Wisconsin Public Service Corporation). If the transaction is approved, over 60 percent of the state's electric and gas customers would be served by two companies under a single directorship. American Transmission Company has also filed applications with the Public Service Commission to construct two new high voltage transmission lines in Wisconsin (known as Badger-Coulee and Bay Lake), and numerous other smaller electric construction proposals have been filed. Now, more than ever, CUB needs your help to continue the fight.

CUB prides itself on being an effectively lean organization that works tirelessly to fight for reliable and affordable utility service for you. With just four staff, this year CUB has advocated on your behalf in over 30 electric, natural gas, water, and energy policy cases before the Public Service Commission, the Federal Energy Regulatory Commission, and the courts. CUB's efforts resulted in a rate freeze for Alliant Energy customers, including a freeze of the fixed portion of customers' rates, and "earnings caps" that require Alliant and another utility, Northern States Power Company of Wisconsin, to give back to customers any earnings they make above their authorized rates of return. In conjunction with the Public Service Commission, CUB also helped to ensure that Wisconsin customers will not be on the hook for millions of dollars in energy costs caused by two large iron ore operations in Michigan's Upper Peninsula.

This year, we've also made some difficult decisions and have tried to "step



outside the box" to tackle head-on some of the significant challenges facing the energy industry. Some of the decisions have been mischaracterized in the press, and I encourage all who are interested in the fixed charge issue to read the article on the front page of this newsletter and to contact us with any questions. CUB is opposed to massive hikes in the fixed charge portion of utility rates and believes that increasing energy efficiency, demand response, and conservation efforts are the best way to stem the tide of rising energy costs. We're also excited to see increased integration of local renewable projects like rooftop solar and micro-wind turbines.

However, the shift to more distributed generation and the need for less electricity to be provided via the traditional power grid bring challenges. It will take a collective effort on the part of the community of customers, advocates, regulators, and the utilities to develop solutions that ensure that both customers and utilities can effectively address these challenges and benefit from the evolving opportunities that such challenges create.

We welcome your assistance and your input, and we thank you for your continued support. Together, we can keep working to ensure that safe, reliable, and affordable energy is provided to all Wisconsin residential, farm, and small business customers now and in the future.

Program Updates for 2014

CUB is a member-supported, nonprofit organization whose purpose is to:

- Provide public interest legal services to ensure effective and democratic representation of residential and small business utility customers before the legislature, regulatory agencies, and the courts;
- Advocate for reliable, affordable, and sound utility service; and
- Educate consumers on utility service through the preparation, compilation, analysis, and dissemination of information and resource materials relating to utility regulation and public energy and telecommunications policy.

Citizens Utility Board

16 N. Carroll St., Suite 640
Madison, WI 53703



608.251.3322

608.251.7609 fax

800.657.4727



<http://www.wiscub.org>

staff@wiscub.org



We Energies' Valley Conversion Project, 6630-CU-101

CUB files lawsuit to prevent residential ratepayers from subsidizing big business

In April 2013, We Energies requested authorization from the PSC to make major modifications to the Valley Plant at a cost of \$80 million, and to charge the majority of the cost to electric customers. Valley is located in downtown Milwaukee and is relied on by 450 large businesses to provide steam for heating and industrial processes.

CUB intervened in the case and filed expert testimony showing that We Energies' plan would almost exclusively benefit steam customers, and not residential electric ratepayers. CUB argued that electric customers should not have to pay the vast majority of the costs for a plant they do not need and will not use. However, the PSC approved We Energies' plan, as well its proposed allocation of construction and electric uneconomic dispatch costs to residential customers.

CUB has challenged the PSC's decision by filing a lawsuit to stop residential ratepayers from subsidizing big business interests. The case is currently before the Dane County Circuit Court.

We Energies High Rates Forces Its Largest Customer to Cancel Service, 6630-BS-100

CUB fights to prevent Wisconsin customers from paying millions in consequences

In September 2013, We Energies largest electric customer, two iron ore mines in the Upper Peninsula (UP) of Michigan, cancelled service from We Energies due to its high electric rates. The mines operations were powered by We Energies' Presque Isle power plants, located in Marquette, Michigan. The mines selected an unregulated electric service provider to replace

We Energies, and rely on the regional electric grid to power mine operations.

The loss of the mines caused We Energies to petition the regional electric grid operator, MISO, for authority to shut down the Presque Isle power plants which were no longer needed to provide power to the mines. However, MISO denied We Energies request stating that Presque Isle is needed to insure electric reliability in the UP. As a result, We Energies is receiving millions of dollars of payments from MISO to pay for the operation of Presque Isle which supports the electric grid in the UP, and thus the mines.

CUB is fighting before the PSC and federal agencies to ensure that Wisconsin customers only pay for their fair share of the MISO payments to We Energies. Wisconsin customers shouldn't be forced to pay for utility costs caused by We Energies high rates, or to pay an unfair amount to keep a power plant running in another state that isn't needed to supply Wisconsin's energy needs.

Wisconsin Gas, Natural Gas Pipeline in West Central Wisconsin, 6650-CG-233

CUB to monitor use of the pipeline to determine proper cost allocation

In March 2013, Wisconsin Gas requested authorization from the PSC to construct a natural gas pipeline in west central Wisconsin. The pipeline was proposed to serve industrial frac sand mining operations and a small number of residential customers wanting to switch from propane to natural gas for home heating. The PSC approved the project at a cost of \$180 million.

However, due to concerns raised by CUB regarding the need for the project, the PSC required Wisconsin Gas to file annual reports identifying the number of new customers by customer class served by the project,

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Program Updates 2014

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along with the total volume of gas used by these new customers. If utility projections regarding the need for the pipeline are not substantiated by these reports, CUB will challenge any unfair allocation of construction costs to residential customers.

Focus on Energy, Quadrennial Planning Process, 5-FE-100

CUB works to increase energy savings goals; goals to increase by 15%

In 2014, the PSC's Quadrennial Planning Process established goals for energy efficiency programs for the 2015-2018 time period. CUB believes strongly that cost effective energy efficiency programs are the best line of defense against higher utility bills. A recent report shows that Wisconsin's Focus on Energy program saves \$3.41 for every dollar spent on energy efficiency and renewable energy programs. CUB retained national experts on the topic of evaluating energy efficiency programs and submitted comments to the PSC in this important case.

The PSC considered CUB's and

other stakeholder's comments and found that the Focus program can be used to better position Wisconsin to cost-effectively meet federal carbon standards, with energy savings as the primary goal of the program. The PSC also determined that the 2015-2018 net annual energy savings goals will represent a 15 percent increase over the 2011-2014 historical baseline. The Commission deferred a decision on renewable energy goals until it receives a report on renewable programs in the fall of 2014.

We Energies, Rates for 2015, 5-UR-107

CUB fights We Energies' plan to force 95% of rate increase on residential customers

We Energies is seeking PSC approval to increase electric rates by \$52.3 million in 2015. We Energies wants residential and small business customers to pay \$49.6 million, or 95%, of the proposed increase. This represents a 3.4% increase over residential and small business revenues under current rates. We Energies is also

requesting approval to increase the monthly residential electric connection fee by a startling 75% from \$9.13/month to \$16/month.

CUB filed expert testimony with the PSC stating that We Energies' proposal to increase residential and small business customers' rates by 3.4% for 2015 should be denied. Recent projections of We Energies' revenues in 2015 eliminate the need for any electric rate increase.

CUB also filed expert testimony stating that We Energies' proposal to increase the monthly residential connection fee for electric service should be denied because it would dampen price signals to consumers for reducing energy usage, inequitably increase bills for the utility's smallest residential customers, and exacerbate the subsidization of larger residential customers' costs by these lower-usage customers. The PSC will decide this case by the close of 2014.

Wisconsin Public Service Corporation, Rates for 2015, 6690-UR-123

CUB fights WPSC's shocking plan to increase residential monthly utility charge by 140%

Wisconsin Public Service Corporation filed an application with the PSC to increase electric rates by \$76.8 million in 2015. The utility proposes to recover \$36 million of the proposed rate increase from residential and small business customers. If approved by the PSC residential customers' bills would increase by 7.5%. WPSC is also requesting authority to increase the monthly residential electric connection fee from \$10.40/month to \$25.00/month, a shocking increase of 140%.

CUB filed expert testimony with the PSC stating that WPSC's proposal to increase the residential

CUB to provide an alternative to the PSC

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process where independent experts can identify and analyze the best ways for the utility business models and regulations to adapt to the future.

Through this process CUB is working to ensure that customers, not just the utility, benefit in an environment that allows for increasing energy efficiency and conservation and a smoother transition to broader adoption of distributed generation.

The utilities' proposals to dramatically increase fixed monthly charges are short sighted and only help the utilities. CUB believes that real changes are needed, and time must be spent to figure out the best ways to implement those changes in a manner that most benefits customers, not the utilities.

The PSCW will decide whether to adopt or deny the utility proposals to dramatically increase customers' fixed monthly charges by the end of 2014.

CUB has made a compelling case to the PSCW to deny the utilities' proposals and to set in motion an investigation that will result in solutions that protect the interests of residential ratepayers while maintaining reliable electric service at a reasonable cost.

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connection fee should be denied because it would destabilize price signals to consumers for reducing energy usage, disproportionately increase bills for the utility's smallest residential customers, and exacerbate the subsidization of larger residential customers' costs by these lower-usage customers. CUB's recommendation to the PSC is that there should be no increase approved for the monthly electric connection fees for residential and small business customers.

CUB also testified that the use of appropriate cost of service studies shows that residential and small business customers should not receive any increase in their electric rates for 2015. The PSC will decide this case by the close of 2014.

Northern States Power Company - Wisconsin, Rates for 2015, 4220-UR-120

CUB will monitor NSPW filings and aggressively resist unreasonable rate increase requests

NSPW is requesting the PSC to authorize an electric rate increase of approximately \$21 million, or 3.2%, to go into effect in 2015. NSPW worked with CUB and other stakeholders to reduce the amount of the rate increase it would have otherwise requested for 2015. Significantly, NSPW agreed to an earnings cap in 2015, where any excess utility revenues above a 10.2% return on equity would be returned to customers. Also, NSPW did not propose to increase its monthly residential elec-

tric connection fee, setting it apart in a very positive manner from other major investor owned utilities in Wisconsin.

However, NSPW's current rate case before the PSC may be the quiet before the storm. NSPW testimony states that the projected electric revenue deficiency for 2016 is approximately \$40 million, or 6%, and beyond 2016 the utility expects to apply for rate increases of 3% to 5% annually for the next five years. CUB will continue to closely monitor NSPW's filings and aggressively resist unreasonable rate increase requests. The PSC will decide this case by the close of 2014.

Wisconsin Power and Light, Fuel Rate Case, 6680-FR-107

Last winter's 'polar vortex' continues to cause trouble for residential utility bills

WPL is currently before the PSC with a request for a fuel cost increase of \$54.7 million, or 5.3%, which is driven by two major components. Forecasted increases in the cost of coal, replacement of expiring rail contracts for delivering coal, and higher natural gas prices are projected to increase fuel costs by \$41 million in 2015. \$13.5 million of the proposed rate hike would recover costs incurred in 2014 due to the 'polar vortex' which increased the cost to operate natural gas power plants.

CUB has intervened in the case and will file briefs with the PSC recommending what, if any, reasonable

increase in the cost of fuel should be approved for 2015. The PSC will decide the case by the close of 2014.

Bay Lake Transmission Line Project, 137-CE-166

CUB to see if transmission line is needed; less expensive alternatives may be available

American Transmission Company (ATC) is seeking approval from the PSC to construct the Bay Lake transmission line between Appleton and Oconto Falls, Wisconsin. The 138 kV and 345 kV high-voltage transmission lines would traverse a route approximately sixty miles long at an estimated cost of \$307 million to \$327 million.

Originally, ATC proposed a larger Bay Lake project that included constructing transmission lines in the State of Michigan. CUB was instrumental in scaling back the size of that project when ATC proposed it to the regional electric grid operator, MISO, in late 2011. The cost for the original project was approximately \$1 billion.

The case currently before the PSC will consider new transmission lines only in Wisconsin. CUB will submit expert testimony to the PSC on the validity of ATC's claim that the transmission lines are needed to preserve reliability in Wisconsin, and whether alternatives to the proposed project would provide a comparable level of reliability at lower cost. The PSC will decide the case in 2015.

Badger Coulee Transmission Line Project, 5-CE-142

CUB to see if transmission line is needed and cost effective

American Transmission Company and Northern States Power Company - Wisconsin jointly filed an application with the PSC seeking approval to construct a 345 kV

CUB saves over \$100 for every \$1 contributed

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high-voltage transmission line from Madison to La Crosse, Wisconsin. The proposed line would be approximately 150 to 190 miles long and is expected to cost approximately \$540 million to \$580 million to construct depending on the route selected by the PSC.

The project is unusual in that the total dollar cost of constructing the line will be shared across the footprint of the regional electric grid operator, MISO, since it has been designated as a Multi-Value-Project, or MVP. Because MISO spans a number of Midwest states, and operates in other regions of the U.S. and Canada, the cost to Wisconsin ratepayers for constructing the line would be about 15% of the total cost, or up to \$87 million.

CUB has intervened in the case before the PSC to review whether the project makes sense for Wisconsin ratepayers when updated assumptions about future energy usage and the cost of alternatives are considered. The PSC will decide the case in 2015.

Columbia Air Pollution Control Project, 5-CE-143

Ratepayers should not be responsible for \$150 million pollution control investment

Wisconsin Power and Light Company, Wisconsin Public Service Corporation, and Madison Gas and Electric Company filed an application with the PSC requesting authorization to install a selective catalytic reduction (SCR) system for the reduction of nitrogen oxide emissions from the Unit 2 coal power plant at the Columbia Energy Center (Columbia). The estimated capital cost for the Unit 2 SCR is approximately \$150 million. The Applicants are requesting authority to install the SCR at Unit 2 to comply with the terms of a

Consent Decree they entered into with the EPA to resolve alleged air permitting violations, while admitting no liability. The Consent Decree requires the installation of emission control systems at Columbia Unit 2.

CUB is concerned with the large amount of money being put into the Columbia units in recent years. Ratepayers are already paying \$776 million for capital expenditures over just the last three years. If the proposed project is approved capital improvements at Columbia, with AFUDC, would exceed \$1 billion of ratepayer investment. Ratepayers do not have an unlimited amount of money to keep dropping into this nearly 40-year-old plant. The proposed \$150 million SCR project does not appear to be needed to meet codified pollution control requirements, but rather the terms of a settlement agreement that the applicants agreed to in order to avoid civil penalties that shareholders would have been forced to pay.

CUB has intervened in this case before the PSC to insure that ratepayers are not forced to pay for costs Columbia's owners should be paying. The PSC will decide the case in 2015.

Elm Road Coal Plant, Fuel Flex Project, 5-CE-145

We Energies' wants to add millions in costs to multi-billion dollar energy project

We Energies, Madison Gas and Electric Company, and WPPI Energy have applied to the PSC for authorization to spend at least \$25 million to redesign the Elm Road Generating Station (ERGS) to burn sub-bituminous coals or Powder River Basin (PRB) coals as a fuel source. The two ERGS units, each 634 MW in capacity, were originally designed in 2001 to burn

bituminous coal. Since the initial design of ERGS the delivered cost for bituminous coal has increased by 35%. Because of this and other developments, ERGS owners are investigating the use of burning PRB basin coals.

CUB has intervened in this case before the PSC. Though there may be cost-savings associated with the burning of lower cost PRB coal, the capital and operational costs associated with equipment and site modification to accommodate ERGS fuel-flex capability need to be carefully scrutinized. The capital cost to construct both ERGS units as originally designed to burn bituminous coal, with return on investment, is projected to cost ratepayers approximately \$9 billion over 30 years.

CUB will examine the reasonableness of customers needing to pay even more to receive any value from an already stupendously expensive power plant. The PSC will decide the case in 2015.

Wisconsin Energy Corporation, Acquisition of Integrys, 9400-YO-100

CUB to scrutinize \$9 billion takeover of Wisconsin utility Holding Company

In August 2014, We Energies' parent company, Wisconsin Energy Corporation (WEC), filed an application with the PSC for permission to acquire Wisconsin Public Service Corporation's parent company, Integrys Energy Group, Inc., for \$9.1 billion. In order to receive approval, WEC must prove that the proposal is in the best interests of both We Energies' and WPSC's ratepayers.

CUB will scrutinize the details of the transaction and fight to ensure that the acquisition does not get approved unless there are clear and quantifiable benefits for customers of both Wisconsin public utilities.



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Board of Directors Election Results

A special thank you to all CUB members who cast ballots for the recent election of directors to the CUB Board.

We are pleased to announce that Gretchen Schuldt Doege has been re-elected to the CUB Board. Gretchen is a grants development coordinator for the Milwaukee Public Schools. Her background and abilities help CUB work in a difficult environment to ensure that residential and small business utility ratepayers are represented and their interests are protected.

CUB welcomes four new members to the board of directors.

Tom Bixby is Madison attorney in private practice who has worked with consumer-oriented non-profit organizations, including neighborhood organizations, statewide coalitions, and national consumer organizations.

Eileen Hannigan is a Senior Research Advisor with Illume Advising in Madison and brings eight years of experience with energy efficiency programs including program planning, cost-benefit analysis, implementation, and evaluation.

Amy Heart is the Sustainability & Solar Program Manager at the Milwaukee Office of Environmental Sustain-

ability and brings several skills, including helping to develop strategies and messaging for educating the general public and media.

John Hendrick is Director of Elder Financial Empowerment Project at Coalition of Wisconsin Aging Groups where he provides support, advocacy, and information and referral for elder victims of financial abuse. He has also served on the Dane County Board for 21 years and just completed a term as board chair.

Each summer, several seats on the CUB Board are open for election. If you know an individual who would make a good candidate for the Board, please contact CUB Executive Director Kira Loehr at loehr@wiscub.org, or 608-251-3322 x. 12.

