A **Coalition** to preserve Wisconsin's Reliable and Affordable Electricity

Customers First!

the Wire

Plugging you in to electric industry changes

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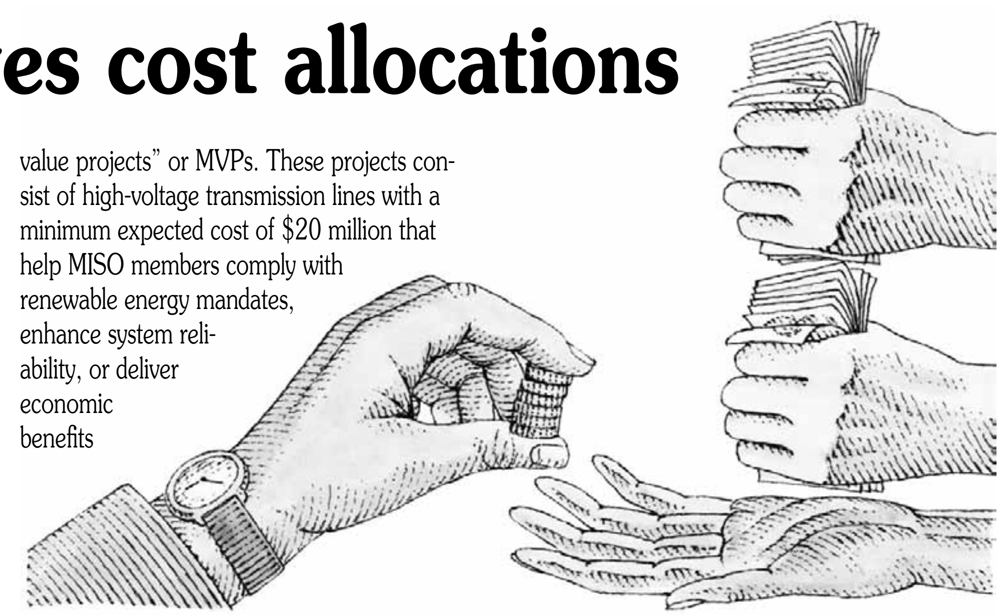
Court approves cost allocations



Who pays for the big transmission build-out already well underway across the U.S., and how are their shares of the cost divided? That's been a question facing Wisconsin electric utilities, regulators, and customers for years.

Last month, a federal appeals court in Chicago came up with this answer: Everybody pays.

In a 26-page opinion, a three-judge panel of the U.S. Court of Appeals for the 7th Circuit reviewed the role of regional transmission organizations or RTOs—of which the Midcontinent Independent Transmission System Operator (MISO) that serves Wisconsin is one—and concluded that every entity using the grid of an RTO whose service area is traversed by a new line should share in the cost of building that line.

At issue are more than $5 billion in lines specifically designated by the MISO as "multi-value projects" or MVPs. These projects consist of high-voltage transmission lines with a minimum expected cost of $20 million that help MISO members comply with renewable energy mandates, enhance system reliability, or deliver economic benefits across multiple sectors of the RTO service area.

Two years ago the Federal Energy Regulatory Commission (FERC) largely adopted a MISO plan allocating MVP costs among all MISO members, but state regulators in Illinois and Michigan, (along with some utilities) objected that MISO members in their jurisdictions—and ultimately their customers—would receive minimal benefit in comparison with the costs they would share. They petitioned for judicial review of the FERC-approved cost-sharing scheme.

The court agreed that under federal law, the costs of transmission upgrades, paid in the form of fees added to the price of wholesale electricity, must be "roughly proportionate to the anticipated benefits to a utility of being able to use the grid." It also noted that both MISO and FERC agree that the MVPs will benefit all MISO members and all members should share in their costs.

So the fundamental issues aren't especially complicated but some aspects of the resulting opinion can be expected to trigger a lot more activity—both legal and energy-related activity—down the road. Here's why:

Construction of the MVPs is largely a result of policy choices to increase reliance on wind energy, which is generated far more efficiently on the Great Plains than in the more populated sections of the MISO service area farther east.

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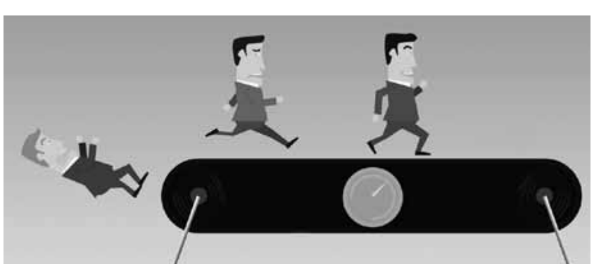
Renaissance in reverse?

Over the past decade or so, we've commented occasionally on speculation about a "renaissance" in nuclear-fueled electric generation and the practical considerations that often make the speculation appear to be no more than that. Several new nuclear units are under construction, but the first half of 2013 raised the question: Will the old ones go out of business faster than the new ones can be built?

The middle week of June was typical. Over a span of three days we saw stories that Xcel Energy plans to spend nearly $2 billion to add another 20 years to the productive lifetime of its 40-year-old reactors in Minnesota, and that Southern California Edison will permanently close its San Onofre plant, idled by a prolonged outage for major repairs. A few weeks ago the Kewaunee plant on Lake Michigan shut down for good, despite being licensed to operate until 2033, after its Virginia-based owner found it uneconomical to operate in the face of low natural-gas prices. Also in June, Mid-American Energy said it was abandoning studies for a small-scale reactor in Iowa.



In February, Duke Energy

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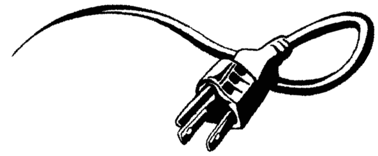
THE WIRE is a monthly publication of the *Customers First!* Coalition—a broad-based alliance of local governments, small businesses and farmers, environmental groups, labor and consumer groups, retirees and low-income families, municipal electric utilities, rural electric cooperatives, wholesale suppliers, and an investor-owned utility. *Customers First!* is a coalition dedicated to preserving Wisconsin's reliable and affordable electricity.

If you have questions or comments about THE WIRE or the *Customers First!* Coalition, please call 608/286-0784.

KEEPING CURRENT



With CFC Executive Director Matt Bromley

The Wisconsin State Legislature recently wrapped up work on the 2013–15 state budget, and as of this writing, it's now back before the governor for his signature into law. Lawmakers left mostly intact the few energy-related items the governor proposed in his original budget earlier this year.

One of those items, previously mentioned in this column, gives the state specific authority to sell or lease state-owned property, including heating, cooling, and power plants. The Legislature modified the provision by specifying that the state could not sell or lease a plant unless the transaction is first approved by the Legislature's Joint Committee on Finance. As part of the approval process, the Department of Administration (DOA) will be required to provide the committee with a cost-benefit analysis and other information related to the proposed sale or lease.

Bromley

Whether there will be any bidders for the plants remains to be seen. Most of the 33 state-owned facilities are small, older plants that provide steam and chilled water to state universities, prisons, and health care facilities. According to the DOA, there is nearly $313 million in outstanding debt for the plants. Yet, some entities may find acquiring one or more of them to be a prudent investment. We Energies has publicly expressed an interest in purchasing one or more of the state's plants, and Madison Gas & Electric has indicated it would be interested in purchasing plants in its service territory such as the state-owned portion of the 150-megawatt cogeneration facility on the University of Wisconsin–Madison campus. Currently, that plant is jointly owned by the utility and the state.

A second item in the governor's budget that was approved by the Legislature changes how utility public benefits are allocated. Utilities collect from customers a "state low-income assistance fee" (a/k/a public benefits) that cannot exceed more than 3 percent of the customer's utility bill. The $90 million or so collected annually from this fee is combined with federal dollars to fund weatherization programs and bill payment assistance to low-income households. The budget bill doesn't change the amount customers pay, but it shifts a greater portion—approximately $8 million a year—of the money collected through the fee from weatherization to bill payment assistance. The governor's administration says the change is intended "to ensure fair and consistent funding for each program."

The governor says he hopes to sign the budget into law by July 1.

Cost allocations

Continued from page 1...

The court found that facilitating the delivery of Western wind power will "confer substantial benefits on the region served by MISO by replacing more expensive local wind power" and fossil-fueled power plants.

The Michigan plaintiffs argued that one reason they would derive minimal benefit from MVPs is a Michigan law prohibiting utilities from counting renewable energy produced outside the state in demonstrating compliance with the mandated standard of 10 percent renewable energy by 2015.

The court's rejection of this argument opens a whole new line of potential litigation, as the opinion says, "Michigan cannot, without violating the commerce clause of Article I of the Constitution, discriminate against out-of-state renewable energy."

Wisconsin's renewable energy standard—also 10 percent by 2015—prescribes no geographical restriction, but a number of states do. *Environment and Energy News* quoted an unnamed source in the legal profession speculating that the 7th Circuit opinion sets the table for litigation against in-state sourcing requirements and "changes the entire renewables game."

On the more basic cost-benefit question, the court was dismissive: "Illinois can't counter [the FERC-approved cost-sharing plan] without presenting evidence of imbalance of costs and benefits, which it hasn't done," the opinion said.

Coalition member names new executive director

RENEW Wisconsin, a renewable energy advocacy organization and member of the *Customers First!* Coalition, has appointed a veteran of the U.S. Department of Energy and the Wisconsin Division of Energy Services as its new executive director. Tyler Huebner commenced his duties with RENEW as of June 1.

In addition to his past work for the state and federal governments, Huebner has been a consultant for ICF International and a facilities management engineer at the University of Iowa, where he earned a bachelor's degree in electrical engineering. He holds a master's degree in Civil and Environmental Engineering from Stanford University.

PGE = Penalties Go Easy?

Two billion dollars might seem like a steep price to pay for shoddy work by a public utility, until you consider that the shoddiness resulted in eight fatalities and extensive property damage. Pacific Gas and Electric (PGE) has been ordered to spend $2.2 billion to remedy deficiencies in its gas system, but now some California officials are saying the penalty needs to be tougher.

Early last month, a regulatory attorney with the California Public Utilities Commission issued a public statement critical of his own agency's consumer protection and public safety division. Robert Cagen, who was reassigned from the PGE penalty case, said he believed the staff-recommended penalties were "unlawful" and did not amount to adequate punishment.

The San Jose *Mercury News,* which reported on Cagen's statements initially e-mailed to a local television station's website, said officials in the city of San Bruno, where the pipeline explosion occurred, were upset that the staff penalty proposal would allow PGE to receive credit for $1 billion in work it says it has already completed and also to gain access to $900 million in tax credits.

Meanwhile, the administrator whose division Cagen criticized tore into PGE for its "lack of remorse," after the utility complained that the proposed penalty was excessive.

According to a story reported by Los Angeles TV station KCET, safety division head Emory Hagan said, "It's time to throw the Book at PG&E."

On the other hand, KCET reported, Hagan acknowledged that the proposed penalty is half as much as PGE would need to spend to bring its gas pipeline network up to "minimum acceptable standards" but worried that higher penalties might degrade the utility's ability to maintain safe operations while making the needed upgrades.

So, how's this relevant in a newsletter dedicated to affordable and reliable electricity? Simple: PGE's troubles can be traced to the electric restructuring mania of the 1990s, when the company lost focus on it core mission and started cutting corners in a desperate—and unsuccessful—bid to avoid bankruptcy in a regulatory environment rigged to make restructuring look like a winner for customers.

California utilities—and their customers—are still paying the price.

Energy saver tip

If your freezer needs to be defrosted, it's working too hard. That means it's using more electricity than necessary and that, in turn, means it's churning out excessive heat inside your home at midsummer, just when you don't want it. Removing frost when its thickness reaches a quarter-inch will give you more efficient performance and help you stay cool.

Renaissance?

Continued from page 1...

decided to permanently close its inactive Crystal River plant in Florida, which had become a money pit for the company.

Five new units are under construction in South Carolina, Georgia, and Tennessee, so closures and construction startups are running about even.

In a report this spring, the Energy Information Administration (EIA, a division of the Department of Energy) identified reasons why the renaissance talk hasn't been panning out so far: "With high nuclear power-plant construction costs, low natural gas prices, and slow growth in demand for electricity, market conditions for building new nuclear plants are challenging," the report said.

The EIA anticipated overall U.S. nuclear generation to grow more than 14 percent by 2040 but to nevertheless decline as a share of total generation—from about 19 percent today to 17 percent in 2040—as natural gas and renewable energy sources expand.

Scam warning

Bogus home-energy audits and phony bill collections through prepaid credit cards are some of the latest tricks employed by thieves to part electricity customers from their hard-earned money, electric cooperatives in several states are reporting.

In mid-June, *Electric Co-op Today,* a national trade publication, reported that thieves posing as co-op employees have been making "home walk-through" scam calls. They tell a co-op member it's possible to save money on energy bills if they schedule a walk-through energy audit of their home. The "audit" turns out to be nothing but an excuse to get inside the house and case it for future burglary attempts.

More familiar is the tactic of calling unsuspecting customers and telling them they're behind on their electric bill and that service will be disconnected if they don't pay up within a matter of hours. The scam artist demands payment via a prepaid credit card and the customer is out of luck.

Customers of investor-owned utilities in Wisconsin and other states, along with electric co-op members in Texas and Virginia are among those recently targeted.

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P.O. Box 54
Madison, WI 53701

A **Coalition**
to preserve
Wisconsin's
Reliable
and Affordable
Electricity

Be sure
to check out
the *Customers First!*
website at

www.customersfirst.org

Quotable Quotes

"These scammers will tell you that you are months behind on your utility bills and must pay at once. If these scammers call you, do not engage them. Hang up immediately."

—Sandy Chalmers, Wisconsin Department of Agriculture, Trade and Consumer Protection, warning of fake utility bill-payment scams and quoted June 18, 2013 in *Electric Co-op Today*.

Help us share our messages with others. If you know of businesses or organizations that would like to learn more about protecting Wisconsin's reliable and affordable electricity, please feel free to copy and share with them all or part of this newsletter, or you can call 608/286-0784 to arrange an informational meeting.

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