

DATE MAILED

OCT 30 2001

BEFORE THE

PUBLIC SERVICE COMMISSION OF WISCONSIN

In the Matter of Proposed Revision of Chapter PSC 116
Wis. Adm. Code – Cost of Fuel

1-AC-197

NOTICE OF FURTHER HEARING

Hearing Date:	Wednesday, November 14, 2001 – 10:00 a.m.
Hearing Location:	Public Service Commission, 610 North Whitney Way, Madison, WI (Amnicon Falls Conference Room)

Pursuant to the Notice of Proposed Rulemaking and Request for Comments issued December 14, 2000, in this docket, hearing was held and comments were received on proposed rules amending ch. PSC 116, Wis. Adm. Code, relating to fuel cost adjustment by electric public utilities.

By letter dated August 24, 2001, interested parties including Alliant Energy, Citizens Utility Board, Customers First Coalition, Madison Gas and Electric Company, Wisconsin Industrial Energy Group, Wisconsin Electric Power Company, Wisconsin Paper Council, Wisconsin Public Service Corporation, and Xcel Energy filed a consensus proposal requesting that the Commission consider adoption of its proposal in this proceeding. A copy of the August 24, 2001, transmittal letter explaining the consensus proposal is attached. The complete filing of the consensus proposal is available from the Commission at its Records Management office.

The consensus proposal includes suggested changes to the proposed rules attached to the Commission's December 14, 2000, notice. It also includes suggested changes to the Commission's practices regarding the biennial rate case and deferred accounting processes for investor-owned electric utilities.

NOTICE IS HEREBY GIVEN that the Commission will hold further public hearing in this proceeding, as a continuation of the rulemaking process begun by the issuance of the December 14, 2000, notice, to consider the consensus proposal described above. Hearing is scheduled in the Amnicon Falls Conference Room, at the Public Service Commission Building, 610 North Whitney Way, Madison, Wisconsin, on Wednesday, November 14, 2001, at 10 a.m.

This building is accessible to people in wheelchairs through the Whitney Way (lobby) entrance. Handicapped parking is available on the south side of the building.

The Commission does not discriminate on the basis of disability in the provision of programs, services, or employment. Any person with a disability who needs accommodations to participate in this proceeding or who needs to obtain this document in a different format should contact the case coordinator listed below.

Copies of the full consensus proposal filing as referenced above may be obtained from the Commission's Records Management office at (608) 261-8524.

Questions regarding this matter may be directed to case coordinator Candice Spanjar at (608) 267-9537. Hearing or speech-impaired individuals may also use the Commission's TTY number at (608) 267-1479.

Dated at Madison, Wisconsin,

October 30, 2001

By the Commission:

Lynnda I. Dorr

Lynnda I. Dorr

Secretary to the Commission

LLD:RSC:bap:g:\notice\pending\I-AC-197 further hearing.doc

Attachment

Writer's Direct Dial: 414.277.5135
E-Mail: ljm@quarles.com

August 24, 2001

Ms. Lynda L. Dorr
Secretary to the Commission
Public Service Commission of Wisconsin
610 N. Whitney Way
Madison WI 53705

Re: In the Matter of Proposed Revision of Chapter PSC 116
Wis. Adm. Code - Cost of Fuel
Docket No. 1-AC-197

Dear Ms. Dorr:

The Public Service Commission of Wisconsin ("Commission") is currently considering permanent revisions to the Commission's fuel rules contained in PSC Chapter 116, Wis. Adm. Code. Through the last several months, there have been extensive discussions among a group of diverse interested parties, including utilities and customer groups (representing the broad range of customers from small residential consumers to the largest commercial and primary consumers), for the purpose of seeking consensus with respect to revisions to the Commission's fuel rules. This group consists of: Alliant Energy, Citizens Utility Board, Customers First Coalition!, Madison Gas & Electric Company, Wisconsin Industrial Energy Group, Wisconsin Electric Power Company, Wisconsin Paper Council, Wisconsin Public Service Corp. and Xcel Energy. The group is pleased to announce that they have reached a consensus which is embodied in the submission with this letter. The group asks that the Commission consider adoption of its proposal in the rules proceeding.

While the enclosed submission describes in detail the background of the negotiations and a description of all changes to the Commission's fuel rules and other policies in order to implement the consensus proposal, we will briefly describe here the highlights. We would note at the onset that the parties to this proposal set about to reach a compromise on all of the contentious legal and policy issues addressed in recent fuel rules proceedings before the Commission. We believe that the consensus proposal resolves these issues.

RECEIVED

AUG 27 2001

Electric Division

QBMKE5106775.1

RECEIVED
AUG 27 A 9:22
WISCONSIN PUBLIC SERVICE
COMMISSION

First, the fuel adjustment mechanism has been substantially slimmed down. The types of costs that are subject to the mechanism would be limited to only gas, coal and nuclear fuel, energy purchases and variable expenses associated with such purchases, sales for resale, cost and impact of price risk management tools and payments to retail customers under voluntary load reduction programs. This should greatly minimize the issues and simplify proceedings under the fuel adjustment mechanism.

Second, because of many of the costs which have been recoverable under the existing fuel adjustment mechanism would not be under the consensus proposal, it will be necessary to change the biennial rate case process in order to allow utilities the opportunity to recover prudently incurred costs in the second year of the biennium. This change would allow utilities (at their option) in a biennial rate case to reflect, in the second year of a biennium, increases or decreases in sales and all increases or decreases in costs, both those recoverable under the proposed more limited fuel adjustment mechanism as well as under the existing one. Because these issues would be presented in a rate proceeding, customer groups would have full opportunity to address issues regarding the incremental costs associated with additional sales in the second year of the biennium, the incremental offsetting revenues, if any, changes in costs and capacity purchases.

Thirdly, there would be a limited second year update which would occur approximately four months prior to the end of the first year of the biennium for the purpose of updating the average cost of fuel, as that term is defined in the proposed rules, and the price of capacity purchases under certain circumstances. There would be no change in the sales levels allowed, nor any changes to reflect cost changes in other items included in the existing fuel adjustment mechanism but not in the proposed one. Because the update is very limited, it is expected to require only minimal time and effort.

Fourth, because the definition of fuel in the proposed rules is much more limited than in the existing rules, it was necessary to consider how utilities could recover the potentially very significant costs associated with replacement power for unexpected plant outages. The proposed compromise is to allow deferral and recovery following review in a rate proceeding, thus providing customer groups full opportunity to present their position to the Commission. Lastly, Section PSC 116.10 of the proposed revision to Chapter 116, provides the Commission with authority to transition from the existing rules to the new rules in a way that protects both utilities and customers. The details of the transition may differ among utilities and, in any event, have not yet been worked out.

The enclosed proposal is in four parts.

- Part 1(a) is a description of the background behind the consensus proposal; Part 1(b) is a narrative description of the proposed changes to the fuel rule, the biennial rate case process and the cost deferral process.

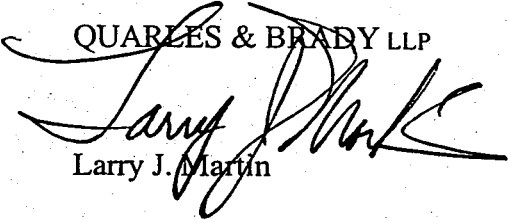
Ms. Lynda Dorr
August 24, 2001
Page 3

- Part 2 is a redlined version of the proposed revisions to Chapter PSC 116, Wis. Adm. Code.
- Part 3 describes the proposed changes to the biennial rate case process.
- Part 4 is a redlined version of proposed changes to the Staff's Statement of Position 94-01 relating to deferred accounts.

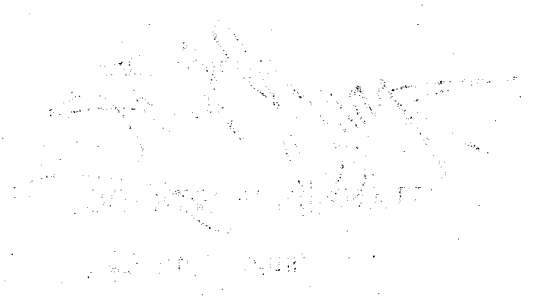
The short description of the consensus proposal is that it relegates more to the rate case process and less to the fuel adjustment mechanism process. It is important for the Commission to view the consensus proposal as a package, because each part is intimately connected to each other part. A consensus would not have been possible without ultimate agreement to each part of the proposal. We are prepared to discuss the consensus proposal with the Commission Staff or other interested parties upon request.

Very truly yours,

QUARLES & BRADY LLP



Larry J. Martin



The following information is provided for your information. The information is for informational purposes only and should not be used for any other purpose. The information is for informational purposes only and should not be used for any other purpose.

The information is for informational purposes only and should not be used for any other purpose. The information is for informational purposes only and should not be used for any other purpose.

The information is for informational purposes only and should not be used for any other purpose. The information is for informational purposes only and should not be used for any other purpose.

The information is for informational purposes only and should not be used for any other purpose. The information is for informational purposes only and should not be used for any other purpose.