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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Another winter of discontent?

Some of the ingredients of last winter's propane crunch seem to be lining up again, and backlogged coal shipments to Midwest power plants could make things even more interesting for energy customers. The railroad says it's catching up. Let's hope they're right.

The Burlington Northern Santa Fe Railroad (BNSF) reportedly committed to step up deliveries to power plants in Wisconsin and Minnesota, following reports from multiple media outlets in July and August warning about potential fuel shortages.

Wisconsin Public Radio reported in mid-August that BNSF "has pledged to ship more coal to Dairyland Power Cooperative in La Crosse for power generation."

The network reported that BNSF made commitments to deliver approximately 145 rail carloads of coal, attributing to Dairyland officials a statement that unless shipments were tripled, the coal plant at Genoa would be facing shutdown by the end of January.

That report followed by ten days an Associated Press report that Xcel Energy's Sherco plant northwest of the Twin Cities was more than 800,000 tons short of its preferred supply as a result of backlogged BNSF deliveries.

The AP cited an Xcel official saying it was unlikely the Sherco plant would run out of coal, but that if it had to shut down on a peak usage day, "he didn't know if the system could sustain itself." Sherco is rated at 2,500 megawatts and produces a large share of the power Xcel feeds into the regional grid.

The AP report came four days after a Rhinelander, Wisconsin, TV station raised the possibility of a winter "coal crisis" on the Dairyland system mirroring last winter's propane supply problems, and warning that if coal shipments weren't accelerated, consumers could face higher electricity prices.

An August 1 report from *Platts* appears to suggest resolution of the shipping backlogs followed a July 23 written complaint from Xcel officials to the Surface Transportation Board. *Platts* attributed the backlogs to several factors including extreme winter weather and surging shipments of crude oil, grain, and other commodities.

Meanwhile, it appeared that Wisconsin

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Save the date!

The *Customers First!* Coalition will host a POWER Breakfast Monday, October 6, to take up one of the industry's hottest topics: the pending Environmental Protection Agency rules covering power plant carbon dioxide emissions. Mark your calendars for 8 a.m. to 12 noon October 6 at Madison's Concourse Hotel, and check http://customersfirst.org/annual_conference.html for updates and registration information.

Escape is impossible

Chicago's not an island in the jungle, and trying to leave there is seldom fatal, but for retail electricity customers who opted for a different power supplier there has to be a kind of *Bridge on the River Kwai* feel to being recaptured by the parent company of Commonwealth Edison.

Almost a million Chicago customers left Com Ed in 2013 in pursuit of lower prices from other suppliers. At the end of July, Com Ed's parent company, Exelon, announced it will buy the unit of Integrys Energy Group that's the retail supplier to more than a million customers, including most of those who thought they'd left Com Ed behind.

According to a *Chicago Tribune* report, the rates those customers are currently paying to Integrys are guaranteed through next May. What happens after that isn't known.

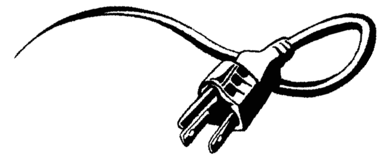
Customer advocates, the *Tribune* said, are concerned by the "quickly dwindling" choices available to retail customers. Suppliers say price volatility is forcing them to cut back their retail energy business—a classic dilemma in a restructured environment where many non-utility retail providers don't actually produce any electricity but must buy it on the wholesale market for resale to end-use customers.

Under a 2012 deal with the City of Chicago, customers moving to Integrys could save about 20 percent compared with Com Ed rates. Recent revisions to the agreement mean the advantage over paying Com Ed rates won't continue for all Chicago customers.

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

Wisconsin electric customers no longer have to pay the lion's share of costs to keep a power plant operating in Michigan's Upper Peninsula, the Federal Energy Regulatory Commission (FERC) said in a ruling issued July 29. The FERC agreed with a complaint filed by the Public Service Commission of Wisconsin (PSC) that a plan by the Midcontinent Independent System Operator (MISO) to allocate most of the plant's operating costs to Wisconsin ratepayers is "unjust, unreasonable, and unduly discriminatory." FERC ordered MISO to rework its cost allocation formula to more fairly assign costs to those who caused them.

Bromley

FERC's decision comes after Wisconsin groups voiced concerns with an agreement MISO made with We Energies back in February to keep the Presque Isle Power Plant in Marquette, Michigan, running through January 31, 2015. We Energies wanted to shut the plant down after the utility's biggest customers—two huge iron ore mines representing about 80 percent of the utility's Michigan load—chose a different electricity supplier under Michigan's retail electric choice law. MISO determined that the plant was necessary to maintain grid reliability in the Upper Peninsula, and therefore agreed to pay We Energies $52 million plus fuel costs to operate the plant. The costs of the payments were assessed pro rata to utility ratepayers within the American Transmission Company footprint—which meant Wisconsin ratepayers picked up about 92 percent of the plant's operating costs while Michigan ratepayers, including the mines that "left" We Energies, only paid 8 percent of the costs.

With support from several Wisconsin consumer groups and utilities, the PSC filed a complaint with FERC over MISO's cost allocation plan. The state regulators argued that the allocation formula should be changed because the bulk of the costs fall on ratepayers who do not receive benefits from the power plant. In comments supporting the PSC's complaint, the *Customers First!* Coalition faulted Michigan's deregulated electricity market for allowing a situation in which customers—the big mining companies in this case—could leave a utility but still benefit from the power generated by its plant. The Michigan mines were, in effect, getting discounted electricity subsidized by Wisconsin customers.

Last month, MISO submitted a new cost allocation plan for the Presque Isle plant that should help remedy the unfairness. As directed by FERC in its July 29 order, the new plan allocates costs based on a load-shed methodology which FERC recognized as a "just and reasonable method" to ensure that those requiring the use of the power plant are paying the costs.

Winter of discontent

Continued from page 1…

could be close to replicating the circumstances that combined to draw down propane supplies last fall, leading to shortages and price spikes in winter's deep freeze.

The U.S. Department of Agriculture has said in recent weeks it expects a record Wisconsin grain harvest this fall. The department also said it expects that bumper crop to come in a few weeks later than average. If that scenario should happen to coincide with another cool, damp fall, the circumstances that put grain-drying and home heating in competition for propane supplies would be coming together again.

A *Reuters* story in mid-August reported industry organizations urging homeowners who use propane to lock in contracts early to secure supply and to guard against mid-winter price volatility. Propane accounts for less than 2 percent of all U.S. energy usage but is vitally important in areas like Western Wisconsin where access to natural gas pipelines is limited.

The impact of last winter's fuel shortages was felt even more strongly in northeastern states, and an August report in Maine's Portland *Press-Herald* indicated that the effect of price spikes is lingering, with old power plants that had been facing the probability of retirement planning to continue operating after coming to the rescue last winter when natural gas supplies fell short.

Who votes and who's counting

The proposed acquisition of Integrys Energy by Wisconsin Energy Corp. (WEC) would give a single new company control over 60 percent of the voting shares in the American Transmission Company. Wisconsin Energy says the new company will only vote the shares now held by Integrys—except on half a dozen "fundamental corporate matters."

American Transmission Company (ATC) is co-owned by subsidiaries of WEC and Integrys, Wisconsin Power and Light, Madison Gas and Electric, WPPI Energy, electric cooperatives and municipal electric utilities in Wisconsin and Michigan.

If approved by multiple regulators, WEC's $9.1 billion acquisition of Integrys would give it control of a company with a 34 percent ownership interest in ATC. Combined with WEC's current 26 percent ownership share, the proposed new company would own slightly more than 60 percent of ATC member interests, giving it an overwhelming advantage in any matter requiring a vote of the shares.

But in the application it filed with the Public Service Commission (PSC) last month, WEC told regulators it won't assume that advantage. Except in six sets of circumstances, WEC said it would vote only the 34.07 percent ownership share currently held by Integrys through its Wisconsin Public Service Corp. subsidiary.

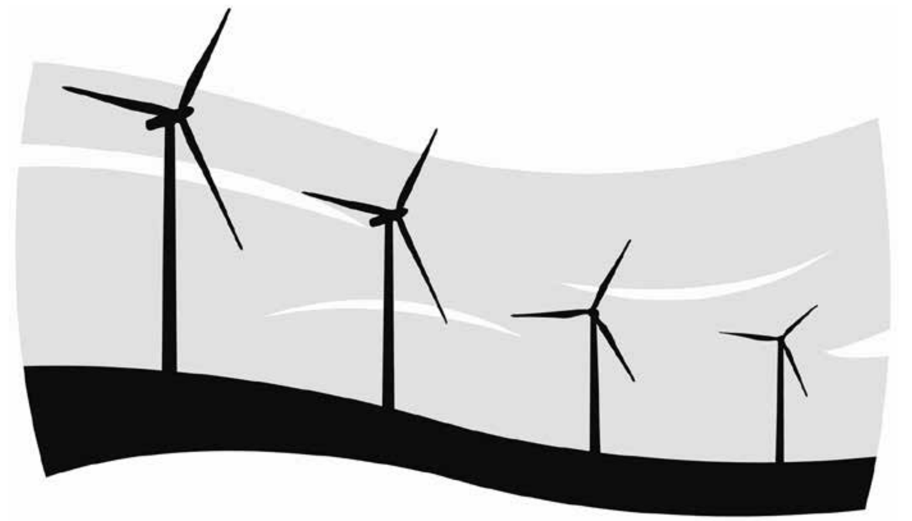
The six exceptions listed in the application are: sale of all or substantially all of ATC's assets, a change in control of the company, bankruptcy, an initial public offering, a merger or acquisition, or an amendment to the governing documents that would diminish the new company's rights as an ATC member or shareholder.

"WEC and Integrys highly value the independent and collaborative manner in which ATC has planned and managed the transmission network in Wisconsin and the Upper Peninsula of Michigan and have no desire to exert additional influence over the management, operations, or planning activities of ATC," the application said.

The application said the new company "will not use its full ownership interest to initiate any of [the fundamental corporate changes] but will only act to protect and preserve its expanded economic interest in ATC if such actions are initiated by others."

The result, the application said, will be that "control of ATC will be more distributed after the transaction than it is today." WEC said the new company won't use its full voting power to elect directors of ATC management and that such a commitment will be included as an enforceable condition of transaction approval by the Federal Energy Regulatory Commission, if the commission deems it necessary.

Assuming the required regulatory approvals are obtained without complication, WEC's acquisition of Integrys is expected to close in the second half of next year, the application said.



IRS eases wind credit standard

Industry consultants say a lot of wind energy projects have stalled because of uncertainty about qualifying for a tax credit that expired last year but remains available for those that began construction in 2013. Some say a recent Internal Revenue Service action may get them moving.

In August, the IRS lowered the threshold of expenditures required to qualify for the wind energy production tax credit (PTC).

Previously, the IRS and Treasury Department required 5 percent of the project cost to be incurred before the end of last year—when a one-year extension of the 21-year-old tax credit program expired—in order to be eligible. As of August 8, incurring three percent of the cost prior to the end of 2013 will be sufficient to claim the credit.

Reporting the IRS modification of the standard, *The Wall Street Journal* called the credits "the financial backbone of most major wind-farm projects" and quoted an energy consultant saying "The whole industry is waiting on it" and "There are thousands of megawatts that are on hold as far as the financing goes."

Wind energy development has ebbed and flowed with the status of the PTC. With expiration of the 2.5 cent per kilowatt-hour credit looming at the end of 2012, that year saw developers install a record 13,000 megawatts of capacity. In the first half of 2013, the *Journal* reported, installations plummeted to a single turbine, but with eleventh-hour Congressional approval of an extension to cover that year, the industry revved up again and according to the American Wind Energy Association, 100 projects were under construction by the end of 2013.

Energy saver tip

Fall is a good time to plant trees and shrubbery. If you have a central air-conditioning unit, take a look at how it's positioned. If you can plant something that will shade it during the heat of the afternoon—without blocking air flow—you'll help it cool your home a little bit more efficiently next year.

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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

"One of the promises of deregulation in Illinois was a competitive retail electricity services market that would benefit consumers. We're concerned that this new acquisition by Exelon appears to reduce competition and increase the concentration of market power."

—Howard Learner of Chicago's Environmental Law and Policy Center comments on Exelon reacquiring most of its former customers by buying a unit of Integrys Energy, quoted in the *Chicago Tribune*, August 1, 2014.

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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Plugging Wisconsin In