Public Service Commission of Wisconsin

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August 22, 2019

Mr. Jeff Renk, Chief Clerk
The State Senate
P.O. Box 7882
Madison, WI 53707-7882

Mr. Patrick E. Fuller, Chief Clerk
The State Assembly
17 West Main Street, Room 401
Madison, WI 53703

Re: Public Service Commission of Wisconsin Report to the Legislature on Wisconsin Holding Companies – 2019 File: 9400

Dear Messrs. Renk and Fuller:

The Public Service Commission of Wisconsin (Commission) prepared the enclosed report on all Wisconsin holding companies and their impact on the operations of the Wisconsin public utilities within their holding company system pursuant to Wis. Stat. § 196.795(7)(ar) and for distribution to the Legislature under Wis. Stat. § 13.172(2).

If you have any questions or comments about the report, please contact Matthew Sweeney at (608) 267-1262.

Sincerely,

Steffany Powell Coker

Steffany Powell Coker
Secretary to the Commission

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Report to the Legislature on Wisconsin Holding Companies 2019

Approved by the Commission: August 22, 2019

PUBLIC SERVICE COMMISSION OF WISCONSIN
REPORT TO THE LEGISLATURE
ON
OPERATIONS OF WISCONSIN PUBLIC UTILITY HOLDING COMPANIES
FOR 2019

INTRODUCTION

1985 Wisconsin Act 79 (the Wisconsin Utility Holding Company Act)[1] established the framework for the regulation of the formation and continuing operation of public utility holding company systems in Wisconsin. As part of that law, the Public Service Commission of Wisconsin (Commission) is required to submit a report to the Legislature on the impacts of the holding company system, both beneficial and adverse, on its public utility affiliates and their investors and consumers.[2] The Commission is also directed to include any recommendations for legislation relating to the regulation of any part of a holding company system. Periodic audits are also required by Wis. Stat. § 196.795.

Wisconsin Stat. § 196.795(7)(a) states:

> No sooner than the first day of the 36th month after the formation of a holding company and at least once every 3 years thereafter, the commission shall investigate the impact of operations of every holding company system formed on or after November 28, 1985, on every public utility affiliate in the holding company system and shall determine whether each nonutility affiliate, except for the nonutility affiliates of a holding company that were affiliates of a holding company that was formed before November 28, 1985 does, or can reasonably be expected to do, at least one of the following: (1) Substantially retain, substantially attract, or substantially promote business activity or employment or provide capital to businesses being formed or operating within the wholesale or retail service territory, within or outside the state of: (a) Any public utility affiliate, (b) Any public utility or member or a cooperative association organized under ch. 185 which reports or has reported information to the commission under the rules promulgated under s. 196.491(2)(ag); (2) Increase or promote energy conservation or develop, produce or sell renewable energy products or equipment; (3) Conduct a business that is functionally related to the provision of utility service or to the development or acquisition of energy resources; and (4) Develop or operate commercial or industrial parks in the wholesale or retail service territory of any public utility affiliate.

This report describes the public utility holding company systems currently operating in Wisconsin and analyzes the impact of each system on its public utility affiliates and investors since the Commission's last report. In addition, this report discusses general issues and concerns related to Wisconsin holding companies. Every major Wisconsin investor-owned utility is part of a holding

[1] 1985 Wisconsin Act 79 created Wis. Stat. § 196.795, the Holding Company Statute.
[2] Wis. Stat. § 196.795(7)(ar).

company system, and these investor-owned utilities typically seek rate changes biennially. The Commission will continue to utilize a broad range of tools, including specialized audits as necessary, to focus on certain aspects of holding company systems, affiliated interest agreements, or cost allocation among affiliates, as necessary.

CORPORATE AND REGULATORY LANDSCAPE

Holding companies vary in corporate structure, culture, and regulatory jurisdiction. The holding companies that house Wisconsin public utilities have changed over time as a result of mergers, acquisitions, reorganizations, changes in investment strategy, diversification and divestiture, investor perception and market fluctuations, and regulatory changes. These factors have influenced each holding company system in the state differently.

At the time that the Holding Company Statute was enacted, the utility industry was in a period of change caused by a decreasing demand for energy. The economy was characterized by slow growth, increasing construction costs, increased cost for providing energy, and a goal of increasing energy conservation. In Wisconsin, the public utilities maintained financial strength, having avoided excess generating capacity, construction cost overruns, and project cancellations. However, there was a desire by a number of public utilities to diversify their business portfolios to improve their financial status and attract new capital. Diversification into new businesses allowed the utilities to both reduce their equity position and provided the potential for growth in the form of higher returns.

Two major regulatory changes have since affected Wisconsin holding companies. On the federal level, the repeal of the Public Utility Holding Company Act of 1935 (PUHCA) and its replacement with the Energy Policy Act of 2005 removed the structural regulation of holding company systems by the U.S. Securities and Exchange Commission and replaced it with limited non-structural regulation of holding company systems' books and records by the Federal Energy Regulatory Commission (FERC). At the state level, the passage of 1999 Wisconsin Act 9 (Act 9) modified the asset cap portion of the Holding Company Statute. Generally, the asset cap limited the size of the non-utility investment, thereby ensuring that regulated utilities would maintain predominance within each holding company.[3] Act 9, however, provided public utility holding companies with partial relief from the limits on non-utility assets (the asset cap) that they may own if the electric utilities in the holding companies took certain prescribed actions with respect to their electric transmission facilities. Act 9 created a new classification of assets called "eligible assets." Eligible assets of a non-utility affiliate in a holding company system are excluded from both the sum of the assets of the public utility affiliate and of the non-utility affiliates in the asset cap formula.[4] The asset cap, prior to Act 9, limited the size of the non-utility investments, thereby

[3] The Holding Company Statute required the provision of "reasonably priced and reliable public utility service" be the predominant business of a public utility holding company system. The asset cap helped ensure each utility's predominance requirement. The asset cap restricts the sum of the assets of all non-utility affiliates to the sum of 25 percent of electric utility and 25 percent or more of the assets used to provide other utility services (i.e., natural gas and steam).

[4] Eligible assets are assets of any non-utility affiliate that are used for any of the following: (a) producing, generating, transferring, delivering, selling, or furnishing natural gas, oil, electricity, or steam energy; (b) providing an energy management, conservation or efficiency product or service or demand-side management product or service; (c) providing an energy customer service, including metering or billing; (d) recovering or producing energy from waste

limiting the volume of affiliated interest transactions as well as the complexity of those transactions. The creation of eligible assets effectively allowed the potential for unlimited, non-regulated investment in the lines of business allowed by the statute. The potential risk from these non-utility investments requires closer scrutiny of securities issuances, dividend policy, and affiliated interest transactions and relationships by the Commission in order to ensure the financial integrity of the regulated utilities.

In addition to relaxing the asset cap, Act 9 also included provisions that allowed for the contribution of transmission facilities and land rights which is subject to Commission approval.

2019 Wisconsin Act 9 as enacted on July 3, 2019, removed the three year contract limit for Wisconsin's public utility operating companies from entering into purchase power contracts with wholesale merchants.

Recommendations for Legislation

The Commission does not have any recommendations for legislation relating to the regulation of utility holding company systems at this time.

GENERAL IMPACTS OF HOLDING COMPANY SYSTEMS

Investor Ratings

The Commission has established requirements to protect Wisconsin utilities' credit ratings from holding company and non-utility affiliate actions that may negatively affect such ratings. These include ring fencing,[5] affiliate agreements, and codes of conduct. Accordingly, Wisconsin utilities are generally granted slightly better credit ratings than their associated holding companies and non-regulated affiliates by the rating agencies (i.e., Standard & Poor's, Moody's Investors Service, and Fitch Ratings Inc.). However, Wisconsin utilities are not totally insulated as actions of the holding company, and affiliates can cause downgrading of the Wisconsin utility's ratings.

Holding company credit ratings are closely related to the financial health of their respective operating subsidiaries, and are further impacted by indebtedness at the holding company level. For example, the June 2018 downgrade of WEC Energy Group, Inc.'s (WEC), senior unsecured rating by Moody's reflected deterioration of the holding company's credit profile due to the increase in the amount of WEC's holding company indebtedness to finance its leveraged acquisition of Integrys coupled with adverse tax effects, on operating utility cash flow, due to the

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materials; (e) processing waste materials; (f) manufacturing, distributing, or selling products for filtration, pumping water or other fluids, processing or heating water, handling fluids, or other related activities; (g) providing a telecommunication service; (h) providing an environmental engineering service. Wis. Stat. § 196.795(6m)(a)2.a.-h.

[5] Ring fencing describes measures taken to financially isolate a regulated public utility business from the non-regulated business activities of its parent company. The purpose of ring fencing is to protect consumers of essential services such as power, water, and basic telecommunications from financial instability or bankruptcy in the parent company resulting from losses in any non-regulated activities. Ring fencing is also used to protect confidential customer or market information within the public utility from the parent company's non-regulated business activities (such as a natural gas marketer).

2017 Tax Cuts and Jobs Act. The holding company credit rating of Alliant Energy and its utility subsidiaries was downgraded one notch by Moody's in July 2016, as incremental debt issuances and time lag in cash flow recovery associated with multi-year capital investment projects have pressured the firm's debt coverage metrics below historical levels.

In June 2018, Moody's downgraded its outlook for the domestic U.S. utilities sector from stable to negative due to declining financial trends in fundamental metrics for the sector. Moody's notes the causes of declining trends are high holding company debt levels and a lower deferred tax contribution to cash from the 2017 Tax Cut and Jobs Act.

The Commission closely monitors the financial health of Wisconsin's utilities and their respective holding companies, to ensure the firms have an adequate opportunity to maintain strong investment-grade credit ratings and have access to the capital markets, for both equity and debt, at a reasonable cost.

Competition and Reliability

The existence of holding company systems does not appear to have significantly affected competition in Wisconsin. However, in 2012 and 2013, two Wisconsin holding company systems filed applications with the Commission related to investments and transactions in the compressed natural gas markets (CNG). In each case, non-utility transportation fuel companies expressed concern that allowing regulated utilities or their affiliates to participate in the CNG market would provide an unfair advantage and hinder competition and the development of the market. (PSC REF#: 176888, PSC REF#: 177561, docket 6690-AU-115, and PSC REF#: 193761, docket 3270-AU-107.) The Commission denied approval of the affiliated interest agreement in docket 6690-AU-115 and placed conditions on the affiliated interest agreement in docket 3270-AU-107 to address these concerns. For example, in docket 3270-AU-107, the Commission approved the separation of the gas procurement function for regulated and non-regulated affiliates. The Commission remains confident that these investments have not had an adverse impact on competitive CNG market participants in Wisconsin. WEC divested its investment referenced in docket 6690-AU-115 prior to the first quarter of 2016. MGE Energy Inc.'s (MGE Energy) investment referenced in docket 3270-AU-107 relates to a single CNG fueling site, and the firm has not indicated an intention to further expand into that market. The Commission approved the termination of the Compressed Natural Gas Service Agreement between Madison Gas and Electric Company and NGV Fueling Services, LLC, a subsidiary of MGE Energy. (PSC REF#: 338792) MGE noted that it planned to dissolve NGV Fueling Services, LLC effectively removing Wisconsin's Holding Companies from the competitive CNG market with no evident adverse effects on competition.

Rates

The effect of holding company systems on regulated utility rates is difficult to quantify. In recent years, utility rates have increased at a rate greater than inflation. This is largely due to continued capital investment in generation and transmission plant, as well as volatility in fuel costs. However, changes in utilities' bond ratings caused by activities at the holding company level can affect utility rates. The rate of return authorized by the Commission reflects the weighted cost of capital, which includes a component for both debt and equity. As the cost of debt increases, these costs are likely to be incorporated into the weighted cost of capital, and utilities may seek a higher rate of return to continue to attract capital necessary for investments in infrastructure.

WISCONSIN HOLDING COMPANY SYSTEMS

Alliant Energy Corporation Holding Company System

Structure

WPL Holdings Inc. (WPLH) was formed on March 31, 1988, and became the parent corporation of Wisconsin Power and Light Company (WP&L). On April 21, 1998, Alliant Energy Corporation (Alliant)[6] was formed through a series of interrelated transactions with WPLH, Interstate Power Company (IPC), IES Industries, Inc. (IES), and their affiliates. The Commission authorized the reorganization, subject to conditions, on November 5, 1997, in docket 6680-UM-100.

Alliant is an investor-owned Wisconsin public utility holding company. Currently, the Alliant system is largely comprised of regulated utilities, with some investments in transmission, non-regulated electricity generation, and transportation.

Alliant's first-tier regulated subsidiaries include WP&L and Interstate Power and Light Company (IPL).[7] WP&L is a Wisconsin public utility engaged principally in the generation and distribution of electricity, and the distribution and transportation of natural gas to retail customers in select markets in Wisconsin. As of December 31, 2018, WP&L supplied electric and natural gas service to approximately 475,000 and 190,000 retail customers, respectively. WP&L also sells electricity to wholesale customers in Wisconsin. IPL is an Iowa public utility engaged principally in the generation and distribution of electricity, and the distribution and transportation of natural gas to retail customers in select markets in Iowa. As of December 31, 2018, IPL supplied electric and natural gas service to approximately 490,000 and 225,000 retail customers, respectively. IPL also sells electricity to wholesale customers in Minnesota, Illinois and Iowa. IPL is also engaged in the generation and distribution of steam for two customers in Cedar Rapids, Iowa. In 2015, IPL sold its Minnesota electric and natural gas distribution assets, and continues to serve the current owners of its former Minnesota service territory through a wholesale power supply agreement.

Alliant's non-regulated first-tier subsidiary is Alliant Energy Finance, LLC, which manages a portfolio of wholly-owned subsidiaries and additional investments that include transmission, non-regulated electricity generation, and transportation. The other business segment includes the operations of Alliant Energy Corporate Services, Inc., which is a centralized service company that provides administrative services to Alliant and its subsidiaries. Alliant also holds a 16 percent interest in American Transmission Company LLC (ATC).[8] Alliant's non-regulated generation

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[6] Alliant Energy became Wisconsin's first federally registered holding company system. The repeal and replacement of PUCHA eliminated the distinction between federally registered and exempt holding company systems and federal structural regulation over holding company systems and centralized service companies.
[7] IPL is the result of a merger of IPC and IES Utilities, Inc.
[8] ATC is a federally registered electric transmission company. ATC is Wisconsin-based and is a Wisconsin public utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois.

portfolio includes the 347 megawatt (MW) simple-cycle, natural gas-fired Sheboygan Falls Energy Facility near Sheboygan Falls, Wisconsin, which is leased to WP&L for an initial period of 20 years, ending in 2025. In addition, Alliant Energy Transportation, Inc. includes a short line railway that provides freight service between Cedar Rapids, Iowa, and Iowa City, Iowa; a barge terminal and hauling services Logistics Park on the Mississippi River; two third-party logistics companies and other transfer and storage services. Alliant Energy Resources also continues to have 50 percent ownership in the 225 MW Great Western Wind Plant in Woodward and Ellis Counties, Oklahoma, with the remaining 50 percent of this project owned by EDF Renewable Energy.

Current Issues

Alliant currently has no outstanding compliance issues at the Commission. An audit of the holding company system was completed in the fourth quarter of 2016 in docket 9403-HC-101.[9] Commission staff identified no material or significant deficiencies. Alliant is in compliance with Wis. Stat. §§ 196.795 and 196.52. Commission staff recommended that future internal audits include a review of the cost allocators between Alliant and its regulated and non-regulated affiliates, as defined in the Master Service Agreement in the Final Decisions in dockets 6680-AU-117 and 9403-AU-103, dated March 11, 2015, and April 25, 2013, respectively. Alliant intends to conduct a review every three years as part of its internal audit process. The most recent review was completed in 2019. Commission staff also recommended that Alliant continue to monitor its credit ratings and outlooks assigned to AEC and its rated subsidiaries within the holding company system. As events warrant, WP&L continues to keep the Commission informed of any developments that trigger credit rating actions, along with what, if any, action is taken by Alliant and its rated subsidiaries in response to such developments.[10] Alliant is currently engaged with the PSCW for an audit of the holding company in docket 9403-HC-102 which is expected to conclude in the third quarter of 2019.[11]

Statutory Compliance

As of December 31, 2018, each non-utility affiliate owned by Alliant was doing at least one of the activities listed in Wis. Stat. §§ 196.795(7)(a). Specifically, the activities conducted by the non-utility affiliates included:

- Increasing or promoting energy conservation or developing, producing or selling renewable energy products or equipment, pursuant to § 196.795(7)(a) 2.
- Conducting a business that is functionally related to the provision of utility service or to the development or acquisition of energy resources, pursuant to § 196.795(7)(a) 3.

MGE Energy, Inc., Holding Company System

Structure

On July 29, 2002, the Commission approved the formation of MGE Energy, a Wisconsin public utility holding company, in docket 9407-YO-100. MGE Energy became the parent corporation of Madison Gas and Electric Company (MGE).

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[9] Audit Report, docket 9403-HC-101, issued October 31, 2016 (PSC REF#: 293907).
[10] Alliant Response letter, docket 9403-HC-101, dated November 3, 2016 (PSC REF#: 293991).
[11] Alliant Response letter, docket 9403-HC-101, dated November 3, 2016 (PSC REF#: 293991).

MGE Energy's regulated subsidiary is MGE, a Wisconsin-regulated utility providing natural gas and electric service. As of December 31, 2018, MGE served approximately 153,000 electric customers in Dane County and 161,000 natural gas customers in seven south central and western Wisconsin counties. MGE is the primary subsidiary in the holding company system.

MGE Energy's non-regulated subsidiaries include Central Wisconsin Development Corporation (Central Wisconsin), MAGAEL, LLC (MAGAEL), MGE Transco Investment LLC (MGE Transco), MGE Power LLC (MGE Power), MGE Services, LLC, and MGEE Transco LLC.

Central Wisconsin assists new and expanding businesses throughout central Wisconsin by participating in planning, financing, property acquisition, and joint ventures and associated activities. North Mendota Energy & Technology Park, LLC (North Mendota E&T), owns property and serves as the development entity for the property. Central Wisconsin has a 50 percent ownership interest in North Mendota E&T.

MAGAEL holds title to non-utility property and property acquired for future utility plant expansion.

MGE Power owns subsidiaries that own generating assets required to meet MGE's growing customer demand. MGE Power has two wholly-owned subsidiaries—MGE Power Elm Road, LLC (MGE Elm Road), and MGE Power West Campus, LLC (West Campus). MGE Elm Road has an 8.33 percent undivided ownership interest in two coal-fired generating plants in Oak Creek, Wisconsin.[12] West Campus has a controlling interest in the electric generating assets related to the West Campus Cogeneration Facility.[13]

MGE Services, LLC, provides construction and other services.

MGEE Transco LLC, invests in ATC Holdco, which is engaged in electric transmission development and investments outside of Wisconsin. As of December 31, 2018, MGEE Transco LLC held a 4.04 percent ownership interest in ATC Holdco.

Structural Changes

There have been no major structural changes since the last report.

Current Issues

MGE interacts with its subsidiaries and its parent corporation like a service company; therefore, the Commission continues to monitor cost allocations among the affiliates in rate cases to ensure that the other entities in the holding company system are paying their fair share of costs. A holding company audit of the MGE Energy system is scheduled to occur in first and second quarter of 2020. At the time of this report, Commission staff is in the early planning and testing phase of the audit. Commission staff estimates a completion date of August 31, 2020.

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[12] MGE Power Elm Road leases its share of the coal-fired generating plant to MGE through a long-term lease agreement.

[13] West Campus leases its share of those assets to MGE through a long-term lease agreement.

Statutory Compliance

As of December 31, 2018, each non-utility affiliate owned by MGE Energy was doing at least one of the activities listed in Wis. Stat. §§ 196.795(7)(a). Specifically, the activities conducted by the non-utility affiliates included:

- Substantially retaining, attracting, or promoting business activity or employment or providing capital to businesses being formed or operating within the wholesale or retail service territory of a public utility affiliate, a public utility, or a cooperative association, pursuant to § 196.795(7)(a)1.
- Conducting a business that is functionally related to the provision of utility service or to the development or acquisition of energy resources, pursuant to § 196.795(7)(a)3.
- Developing or operating commercial or industrial parks in the wholesale or retail service territory of a public utility affiliate, pursuant to § 196.795(7)(a)4.

Piepgras Holding Company System

Structure

On April 16, 1991, the Commission approved the formation of the Piepgras Holding Company (Piepgras Holdings), a Wisconsin public utility holding company, in docket 9404-YO-100. The formation of the holding company resulted from Donald Piepgras' acquisition of 99.81 percent of the common stock of St. Croix Valley Natural Gas Company, Inc. (St. Croix Gas), from his parents, A. D. and Helen Piepgras.[14] The only first-tier regulated subsidiary is St. Croix Valley Natural Gas Company, a regulated Wisconsin public utility serving approximately 8,500 retail customers in western Wisconsin. Piepgras Holdings currently has no non-regulated subsidiaries.

Piepgras Holdings is the simplest form of holding company structure—formed by the transfer of stock between parents and child. Donald Piepgras has not incorporated the holding company as a separate entity. Therefore, he is the holding company.

Current Issues

A holding company audit of Piepgras Holdings was completed in the second quarter of 2017. Commission staff did not identify any material or significant deficiencies or recommendations at the conclusion of the audit. Commission staff is planning to engage a holding company audit during the fourth quarter of 2019.

Statutory Compliance

Wisconsin Stat. § 196.795(7) is not relevant to Piepgras Holdings as there are no non-regulated affiliates.

WEC Energy Group's Holding Company System

[14] Under Wis. Stat. § 196.795(1)(g), "'Form a holding company' means any of the following: 1. As a beneficial owner, to take, hold or acquire 5 percent or more of the outstanding voting securities of a public utility, other than a transmission company, with the unconditional power to vote those securities."

On June 29, 2015, Wisconsin Energy Corporation acquired Integrys Energy Group, Inc.,[15] after the Commission's approval of the transaction in 9400-YO-100, and changed its name to WEC Energy Group, Inc. (WEC). The first-tier subsidiaries of WEC are Wisconsin Electric Power Company (WEPCO), Wisconsin Gas Company (WG), ATC Holding, LLC, We Power, Wispark, and Integrys. In addition, the Upper Michigan Energy Resource Corporation (UMERC), is also a first-tier subsidiary of WEC, operating in Michigan.

Structure

WEC is a Wisconsin holding company formed after November 24, 1985, the effective date of the enactment of Wis. Stat. § 196.795. WEC was incorporated in Wisconsin in 1981, and became a Wisconsin public utility holding company in 1986. With the formation of the holding company, WEC became the parent corporation of WEPCO, a Wisconsin public utility. On April 26, 2000, WEC acquired WICOR, Inc. (WICOR). WICOR was the oldest Wisconsin public utility holding company, formed prior to November 24, 1985, and grandfathered under the Holding Company Statute. WICOR is the parent corporation of WG, a Wisconsin public utility. On January 1, 2017, after approvals were provided by the Commission and the Michigan Public Service Commission (MPSC), the portions of WEPCO and WPSC that service the Upper Peninsula of Michigan were transferred into a Michigan-only utility (UMERC). As of January 1, 2017, all Michigan jurisdictional electric and natural gas customers of WEPCO and WPSC (with the exception of Tilden Mining Company L.C. and Empire Iron Mining Partnership) became customers of UMERC.

WEC's first-tier regulated subsidiaries, WEPCO and WG, operate together under the trade name of We Energies in Wisconsin. As of December 31, 2018, We Energies served approximately 1,134,800 electric customers in Wisconsin, 1,127,400 natural gas customers in Wisconsin, and approximately 380 steam customers in metropolitan Milwaukee, Wisconsin.

The formation of UMERC was required under a settlement agreement that was filed with the MPSC and was executed on March 25, 2015, in connection with the MPSC's approval of the acquisition of Integrys by WEC.[16] The application indicated that the formation of UMERC would lead to greater operational and regulatory efficiency, facilitate the construction of electric generation in the Upper Peninsula of Michigan, and ensure that the cost of any such facilities be properly allocated to UMERC customers. UMERC serves approximately 27,800 full requirement electric customers and 70 distribution–only retail access customers in the zone formerly serviced by WEPCO, and approximately 9,000 full requirement electric customers, 5,300 natural gas customers, 16 electric retail access service customers, and 16 gas transportation customers in the zone formerly serviced by Wisconsin Public Service Corporation (WPSC).

WEC's first-tier subsidiary Integrys' regulated subsidiaries include: The Peoples Gas Light and Coke Company (PGL); North Shore Gas Company (NS); Minnesota Energy Resources Corporation (MERC); WPSC; and Michigan Gas Utilities Corporation (MGU). PGL is an

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[15] As a result of the acquisition, Integrys Energy Group, Inc. became a first-tier subsidiary of WEC and was renamed Integrys Holding, Inc. (Integrys).

[16] Order approving Amended and Restated Settlement Agreement, Case No. U-17682, issued March 25, 2015 (http://efile.mpsc.state.mi.us/efile/docs/17682/0215.pdf).

Illinois regulated natural gas utility. As of December 31, 2018, PGL served approximately 863,000 residential, commercial, and industrial retail sales and transportation customers in the city of Chicago. NS is an Illinois regulated natural gas utility. As of December 31, 2018, NS served approximately 163,000 residential, commercial, and industrial retail sales and transportation customers in the northern suburban area of Chicago. MERC is a natural gas distribution operation. As of December 31, 2018, MERC provided natural gas distribution services to approximately 238,000 natural gas customers in 193 communities in Minnesota. MGU is a natural gas distribution operation. As of December 31, 2018, MGU provided natural gas distribution services to approximately 177,900 natural gas customers in 151 communities in southern and western Michigan. The only regulated subsidiary in Wisconsin is WPSC. As of December 31, 2018, WPSC served approximately 446,500 electric and 330,400 natural gas customers in Wisconsin.

WEC's primary first-tier non-utility energy subsidiary is We Power. We Power, through wholly-owned subsidiaries, has designed and built approximately 2,320 MW of generation capacity in Wisconsin. WEPCO leases each generating facility from We Power as well as operates and maintains the plants under 25- to 30-year lease agreements approved by the Commission. The generation consists of approximately 1,230 MW of new generating capacity from Elm Road Units 1 and 2 and 1,090 MW of generating capacity related to Port Washington Generating Station Units 1 and 2. Port Washington Generating Station Units 1 and 2 were placed in service in July 2005 and May 2008, respectively. Elm Road Units 1 and 2 were placed in service in February 2010 and January 2011, respectively. Two unaffiliated entities collectively own approximately 17 percent or 200 MW of Elm Road Units 1 and 2.

Wisvest, LLC, another first-tier non-utility energy subsidiary of WEC, was originally formed to develop, own, and operate electric generating facilities and to invest in other energy-related entities. As a result of the change in corporate strategy, Wisvest, LLC, has discontinued its development activity.

WEC's other first-tier non-utility subsidiary is Wispark LLC, which develops and invests in real estate, and as of December 31, 2018, had $46 million in real estate holdings. Wispark, LLC has developed several business parks and other commercial real estate projects, primarily in southeastern Wisconsin.

Structural Changes

As noted above, on June 29, 2015, WEC announced the completion of the acquisition of Integrys, forming WEC Energy Group, Inc. The stockholders of both companies approved the transaction, and approvals from FERC, Michigan, Minnesota, Illinois, and Wisconsin were obtained as part of this acquisition. The combined entity was named WEC Energy Group, Inc., and is headquartered in Milwaukee, Wisconsin. It serves approximately 4.4 million total natural gas and electric customers across Wisconsin, Illinois, Michigan, and Minnesota. The Commission approved this merger in its Final Decision in docket 9400-YO-100, dated May 21, 2015. Also as noted above, the Commission and the MPSC approved the necessary transactions to form the Michigan-only utility UMERC to serve the electric and natural gas customers of WEPCO and WPSC located in the Upper Peninsula of Michigan, effective January 1, 2017, with UMERC becoming a first-tier subsidiary of WEC. In 2018 Bostco LLC, which was a first-tier non-utility of subsidiary of WEC and focused on real estate development and investment, was dissolved and all assets were transferred to Wispark LLC.

Current Issues

The Commission is continuing to monitor the acquisition of Integrys and the reorganization of the WEC Energy Group system for compliance with its Final Decision in docket 9400-YO-100, dated May 21, 2015. WEC owns approximately 60 percent of American Transmission Company, but has limited its voting power under the terms of the Commission's Final Decision. An independent audit of the holding company cost allocations was completed May 28, 2019. This audit, in conjunction with a Commission staff holding company audit expected to be engaged in the third or fourth quarter of 2019, is intended to fulfill the Commission's obligation under the Wisconsin Public Holding Company Act. The independent holding company audit did not find any deficiencies or errors of any material consequence.

Statutory Compliance

As of December 31, 2018, each non-utility affiliate owned by WEC was doing at least one of the activities listed in Wis. Stat. §§ 196.795(7)(a). Specifically, the activities conducted by the non-utility affiliates included:

- Substantially retaining, attracting, or promoting business activity or employment or providing capital to businesses being formed or operating within the wholesale or retail service territory of a public utility affiliate, a public utility, or a cooperative association, pursuant to § 196.795(7)(a) 1.
- Increasing or promoting energy conservation or developing, producing or selling renewable energy products or equipment, pursuant to § 196.795(7)(a) 2.
- Conducting a business that is functionally related to the provision of utility service or to the development or acquisition of energy resources, pursuant to § 196.795(7)(a) 3.
- Developing or operating commercial or industrial parks in the wholesale or retail service territory of a public utility affiliate, pursuant to § 196.795(7)(a) 4.

Non–Wisconsin Holding Company Systems

ALLETE

Structure

ALLETE is incorporated under the laws of Minnesota. Minnesota does not have a holding company statute. Regulated utility operations include Minnesota Power (MP) and Superior Water, Light and Power Company (SWL&P), as well as investments in ATC.

MP is a Minnesota public utility and a division of ALLETE, serving approximately 145,000 electric customers at retail and 16 municipal systems across a 26,000 square mile service territory in central and northeastern Minnesota. SWL&P is a Wisconsin public utility, a wholly-owned subsidiary of ALLETE, and a full-requirements wholesale customer of MP. SWL&P has approximately 15,000 electric customers, 13,000 natural gas customers, and 10,000 water customers in northwestern Wisconsin.

Much of MP's demand is generated by nine large customers involved in cyclical industries (internationally competitive mining, wood and paper products, and energy pipelines) that by their nature are adversely impacted by economic downturns and are subject to strong competition in the marketplace. As a way to partially mitigate its financial exposure to the cyclical risks inherent in the customer base, ALLETE has a long history of diversification and investment outside of the retail utility business in northern Minnesota. ALLETE's non-regulated operations include ALLETE Clean Energy, BNI Energy and ALLETE Properties.

ALLETE Clean Energy focuses on developing, acquiring, and operating clean and renewable energy projects. ALLETE Clean Energy currently owns and operates, in four states, approximately 555 MW of nameplate capacity wind energy generation that is from PSAs under various durations. ALLETE Clean Energy has historically constructed and sold utility-scale wind energy facilities and has announced contracts to develop additional facilities.

BNI Energy (BNI Coal) operates a lignite mine in Center, North Dakota, producing about four million tons annually. Two electric generating cooperatives, Minnkota Power and Square Butte, presently consume virtually all of BNI Energy's production of lignite under cost-plus fixed fee coal supply agreements extending through December 31, 2037.

ALLETE Properties owns a small amount of real estate in several Florida locations, after having served as ALLETE's significant real estate investment in the aftermath of the company's diversification into local water utility ownership in Florida and South Carolina in the 1980s-2000s.

From February 2015 to March 2019 ALLETE owned U.S. Water Services, which provided integrated water management for industry by combining chemical, equipment, engineering and service for customized solutions to reduce water and energy usage, and improve efficiency. U.S. Water Services was located in 49 states and Canada and had an established base of approximately 4,800 customers. On February 8, 2019, ALLETE entered into a stock purchase agreement providing for the sale of U.S. Water Services to a subsidiary of Kurita Water Industries Ltd.

Current Issues

SWL&P is a relatively small portion of the holding company system, and relies on MP for a large number of services. The allocations between MP and SWL&P require monitoring that typically occurs in rate cases.

Xcel Energy

Structure

Xcel Energy Inc. (Xcel Energy) was created in June 1999 by the merger of Northern States Power Company (NSP) and New Century Energy. As a result of this merger, the structure of NSP did not change. Xcel Energy is a holding company with subsidiaries engaged primarily in the utility business. Xcel Energy was incorporated under the laws of Minnesota, with executive offices in Minneapolis, Minnesota. Pursuant to Wis. Stat. § 196.795(8)(a), holding companies which are organized or created before November 28, 1985, and which were not organized or created by or at the discretion of a utility are exempt from the statute. Since Xcel Energy's predecessor NSP was incorporated under the laws of Minnesota prior to that date, it is exempt from Wis. Stat. § 196.795(8)(a). In 2018, 99 percent of Xcel Energy's revenue came from its regulated operations.

In 2018, Xcel Energy's continuing operations included the activity of four wholly owned utility subsidiaries that serve electric and natural gas customers in eight midwestern and western states. These utility subsidiaries are Northern States Power Company-Minnesota (NSPM), Northern States Power Company-Wisconsin (NSPW), Public Service Company Colorado (PSCo), and Southwestern Public Service (SPS).

NSPW is a public utility organized under the laws of the state of Wisconsin, and is authorized to do business in the states of Michigan and Wisconsin. NSPW, based in Eau Claire, is a Wisconsin public utility engaged in the generation, transmission, distribution, and sale of electricity in portions of northwestern Wisconsin and in the western portion of the Upper Peninsula of Michigan. NSPW also purchases, transports, distributes, and sells natural gas to retail customers and transports customer owned natural gas in this service territory. NSPW provides electric utility service to approximately 259,000 customers and natural gas utility service to approximately 115,000 customers. Generally, NSPW's earnings contribute approximately 5 percent to 10 percent of Xcel Energy's consolidated net income. NSPW owns the following direct subsidiaries: Chippewa and Flambeau Improvement Co., which operates hydro reservoirs; Clearwater Investments, Inc., which owns interests in affordable housing; and NSP Lands, Inc., which holds real estate.

NSPW is significantly impacted by its existence within the Xcel Energy holding company system, and the Commission applies many of the Wisconsin holding company policies and requirements on Xcel Energy and NSPW, under Wis. Stat. § 196.795(11)(b). NSPW is a public utility within the meaning of Wis. Stat. § 196.01.

NSPM, based in Minneapolis, is a Minnesota public utility engaged in the generation, purchase, transmission, distribution, and sale of electricity in Minnesota, North Dakota, and South Dakota. NSPM also purchases, transports, distributes, and sells natural gas to retail customers and transports customer-owned natural gas in Minnesota and North Dakota. NSPM provides electric utility service to approximately 1.5 million customers and natural gas utility service to approximately 0.5 million customers. Generally, NSPM's earnings contribute approximately 35 percent to 45 percent of Xcel Energy's consolidated net income. NSPM owns the direct subsidiary, United Power and Land Company, which holds real estate. NSPM is a Minnesota public utility under Minn. Stat. § 216.B.02. NSPW and NSPM are wholly-owned subsidiaries of Xcel Energy, and therefore are affiliated interests within the meaning of Wis. Stat. § 196.52(1). The electric production and transmission costs of the entire NSP System are shared by NSPM and NSPW. A FERC-approved Interchange Agreement between the two companies (NSPM and NSPW) provides for the sharing of all generation and transmission costs of the NSP System. The sharing of all generation and transmission cost between NSPM and NSPW has been in existence long before the formation of Xcel Energy. PSCo and SPS are not part of this FERC approved Interchange Agreement.

PSCo, based in Denver, is a Colorado public utility engaged in the generation, purchase, transmission, distribution, and sale of electricity in Colorado. PSCo also purchases, transports, distributes, and sells natural gas to retail customers and transports customer owned natural gas. PSCo provides electric utility service to approximately 1.5 million customers and natural gas utility service to approximately 1.4 million customers. Generally, PSCo's earnings contribute approximately 35 percent to 45 percent of Xcel Energy's consolidated net income. PSCo owns the following direct subsidiaries: 1480 Welton, Inc., and United Water Company, both of which own certain real estate interests; and Green and Clear Lakes Company, which owns water rights and certain real estate interests. PSCo also owns P.S.R. Investments, which held certain former employees' life insurance policies. PSCo also holds a controlling interest in several other relatively small ditch and water companies.

SPS, based in Amarillo, is a public utility engaged primarily in the generation, purchase, transmission, distribution and sale of electricity in portions of Texas and New Mexico. SPS provides electric utility service to approximately 393,000 retail customers in Texas and New Mexico. The wholesale customers served by SPS comprised approximately 33 percent of its total kilowatt-hours sold in 2018. Generally, SPS' earnings contribute approximately 15 percent to 20 percent of Xcel Energy's consolidated net income.

Other Subsidiaries

WestGas InterState (WGI) is a small interstate natural gas pipeline company engaged in transporting natural gas from the PSCo system near Chalk Bluffs, Colorado, to Cheyenne, Wyoming.

WYCO Development (WYCO) was formed as a joint venture with Colorado Interstate Gas to develop and lease natural gas pipeline, storage, and compression facilities. Xcel Energy has a 50 percent ownership interest in WYCO.

Xcel Energy Services Inc. is the service company for Xcel Energy.

Xcel Energy Transmission Development Company and Xcel Energy Southwest Transmission Company are transmission-only subsidiaries that will, respectively, participate in Midcontinent Independent System Operator, Inc. (MISO), and Southwest Power Pool (SPP)[17] competitive bidding processes for transmission projects. Xcel Energy West Transmission Company is a transmission-only subsidiary that will competitively bid on transmission projects in the western U.S.

Xcel Energy Inc.'s nonregulated subsidiaries are Eloigne and Capital Services. Eloigne invests in rental housing projects that qualify for low-income housing tax credits, and Capital Services procures equipment for construction of renewable generation facilities at other subsidiaries.

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[17] SPP oversees the bulk electric grid and wholesale power market in the central U.S. on behalf of a diverse group of utilities and transmission companies in 14 states. SPP ensures the reliability of supply of power, adequate transmission infrastructure, and competitive wholesale electricity prices for a 575,000 square mile region, including more than 60,000 miles of high-voltage lines.

Structural Changes

There have been no major structural changes since the last report.

Current Issues

Allocations from the service company and other affiliates to NSPW require monitoring. Generally, the Commission monitors these allocations in the rate case process.

Non-Traditional Holding Companies

Traditional Wisconsin utility holding companies include generation and distribution utilities that are subject to retail rate regulation. However, the Commission has approved transactions involving non-traditional holding companies through mergers or acquisitions with either a Wisconsin public utility or an existing Wisconsin holding company. These include Verso Paper Corp. (Verso), which holds Consolidated Water Power Company (CWPCo), and ITC Holdings, a transmission holding company that holds ITC Midwest.

Verso

Verso is unique in terms of creation and ownership type. CWPCo[18] began as a private utility created to serve its owner's paper mills. The original holding company system owned a Wisconsin public utility prior to November 1985, and was not formed at the direction of a public utility and was therefore exempt under Wis. Stat. § 196.795(8)(a). Through a series of acquisitions, the ownership of CWPCo was transferred to other paper companies a number of times. These acquisitions raised the question of whether the exemption under Wis. Stat. § 196.795(8)(a) still applies. The Commission determined that CWPCo's immediate parent company continues to maintain the exemption, but has declined to rule on whether and to what extent the exemption extends to any other entity in the resulting holding company system.

Consolidated Paper, Inc. (CPI), the original holding company containing CWPCo, was formed in 1894 and organized as Consolidated Water Power Company. The name was changed to Consolidated Water Power and Paper Company in 1902, and to Consolidated Paper, Inc. (CPI), in 1962. In 1918, Consolidated Papers, Inc. (CPI), was organized as the Oneida Paper Company. The name Oneida Paper Company was changed to Oneida Power Company, and the corporation's purpose was changed from a private utility to being a public utility in 1919. Oneida Power Company changed its name to CWPCo in 1926. CWPCo remained a wholly-owned subsidiary of CPI until 2000, when CPI merged into Stora Enso North America, Inc. (SENA).[19] In 2007, New Page acquired SENA and therefore CPWCo.[20]

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[18] CWPCo is a Wisconsin corporation and a public utility within the meaning of Wis. Stat. § 196.01(5)(a). CWPCo owns and operates five federally licensed hydropower projects along the Wisconsin River, which have a collective generating capacity of 33 MW.

[19] Order, docket 1330-DR-100, issued August 2, 2000.

[20] Final Decision, docket 1330-DR-101, issued December 11, 2007.

On September 7, 2011, NewPage Corp. and 13 of its subsidiaries (not including CWPCo) filed for relief under Chapter 11 of the Bankruptcy Code. On January 8, 2014, Verso,[21] a Delaware corporation, announced that it had entered into a definitive agreement to acquire NewPage. The Commission approved the acquisition on April 3, 2014, in docket 1330-EI-100.

In 2016, Verso filed for a reorganization under Wis. Stat. § 196.79 and emerged from bankruptcy on July 15, 2016. CWPco was not included in this reorganization. This specifically included internal restructuring of Verso Corporation (Verso) holding company under which CWPco's direct corporate parent would be renamed and converted from a corporation to a limited liability company. The primary purpose of this reorganization was to allow Verso, CWPCo's ultimate parent and largest customer, to realize substantial federal income tax savings by utilizing net operation losses generated by CWPCo's direct corporate parent. The reorganization was also intended to streamline Verso's corporate structure by eliminating various corporations that are no longer used. In 2016, the Commission found that the proposed reorganization was consistent with the public interest, pursuant to Wis. Stat. § 196.79, in docket 1330-EI-101. (PSC REF#: 294395.)

ITC Holdings

ITC Holdings is an independent electric transmission-only holding company that serves no retail load. ITC Holdings is the sole owner of ITC Midwest LLC (ITC Midwest), which was approved by the Commission as a Wisconsin public utility in docket 2707-NC-100 in April 2013. (PSC REF#: 204180.) The Commission approved ITC Holdings as a Wisconsin public utility holding company in docket 9408-YO-100 in May 2014. (PSC REF#: 204179.) Both entities are subject to rate regulation by FERC. ITC Holdings is the first transmission holding company to become a public utility holding company in the state of Wisconsin.[22]

On October 6, 2016, the Commission approved the joint application of Fortis, Inc., a Canadian holding company, along with a minority investor, to acquire ITC Holdings and ITC Midwest. (PSC REF#: 292924.)

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[21] Verso Paper is headquartered in Memphis, Tennessee. Verso Paper has approximately 2,100 employees and owns three paper mills in Maine and Michigan with the total annual production capacity of 1.5 million tons of paper and 930,000 tons of pulp. Verso Paper owns a substantial amount of generating capacity, including 450 MW of gas-fired generation, 130 MW of biomass-fueled generation, and 30 MW of hydroelectric generation. Verso Paper participates in the New England Power Pool and MISO regional power markets. Apollo Global Management, LLC, beneficially owns 68 percent of the outstanding shares of Verso Paper's common stock.

[22] ATC is exempt from Wis. Stat. § 196.795, the Holding Company Statute, under Wis. Stat. § 196.795(1)(h)3.