

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Rules Relating to Capital Cost Ratemaking Principles for Certain Rate
Base Electric Generating Facilities

1-AC-217

Clearinghouse Rule 05-079

ORDER ADOPTING FINAL RULES

The Public Service Commission of Wisconsin adopts an order to amend ch. PSC 111 (title), and to create subch. VII of ch. PSC 111, Wis. Admin. Code, relating to rules concerning the establishment of capital cost ratemaking principles for certain rate base electric generating facilities.

**ANALYSIS PREPARED BY
THE PUBLIC SERVICE COMMISSION OF WISCONSIN**

Statutory authority: ss. 196.02(3), 196.371(4) and 227.11(2), Stats.
Statute interpreted: s. 196.371, Stats.

Section 196.371, Stats., created by 2005 Wisconsin Act 7, established a process for a public utility to obtain a Commission order regarding capital cost ratemaking principles which may be applicable to the proposed purchase or construction of an electric generating facility. Section 196.371(4), Stats., directs the Commission to promulgate rules for administering the process. This promulgates those rules as sub ch. VII of ch. PSC 111, Wis. Admin. Code.

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No similar federal provision is known. However, Iowa Code Ann. § 476.53 (2005), grants the Iowa Utility Board similar authority, which is codified in Iowa Administrative Code r. 199-7.

Section 196.371(2), Stats., provides that a public utility proposing to build or purchase an electric generating facility may request that the Commission determine, in advance and by order, the underlying principles by which the Commission will treat the recovery of the capital costs of the facility in setting rates for the utility. These capital costs include the purchase price and any modifications or improvements to the facility that are necessary at the time of purchase. The Commission may issue an order under s. 196.371(3)(a), Stats., if it finds that the proposed principles provide a sufficient degree of certainty to the utility, investors, and ratepayers with respect to future recovery of the facility's costs and that the order is otherwise in the public interest. The Commission shall consider the return on equity, rate of return, and capital structure appropriate to maintain the financial integrity of the public utility and shall consider the total cost of the proposed financing mechanism, compared to alternative financing options when making its determination.

The rules elaborate on the process and the information required in the application. The hearing on an application for fixed financial parameters shall be held in conjunction with the review of the associated application for a certificate of public convenience and necessity or certificate of authority and, if applicable, in conjunction with any affiliated interest approval.

The capital structure and other financial parameters surrounding capital cost recovery are important parameters in determining whether the facility complies with the criteria under s. 196.49(3)(b)3, Stats. Fixing financial parameters for electric generating facilities is optional

and the public utility should have evaluated whether such treatment is in its investors' and customers' best interest prior to submitting its application to build or purchase. Consequently, a public utility which does not file an application under these rules before or simultaneously with its application to purchase or build will not be allowed to make such a filing at a later date.

TEXT OF PROPOSED RULE

SECTION 1. Chapter PSC 111 (title) is amended to read:

REQUIREMENTS FOR STRATEGIC ENERGY ASSESSMENTS,
~~AND CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY,~~
AND FIXED FINANCIAL PARAMETERS FOR CERTAIN RATE BASE ELECTRIC
GENERATING FACILITIES

SECTION 2. Subchapter VII of ch. PSC 111 is created to read:

SUBCHAPTER VII – FIXED FINANCIAL PARAMETER APPLICATIONS

PSC 111.61 Purpose. The purpose of this subchapter is to implement s. 196.371, Stats.

PSC 111.62 Applicability. (1) A public utility may apply for an order fixing financial parameters under s. 196.371, Stats.

(2) An electric generating facility proposed to be constructed by a public utility cannot qualify for fixed financial parameters unless the public utility submits an application for fixed financial parameters before or simultaneously with the application for a certificate, as defined in s. 196.371(1), Stats.

(3) An electric generating facility proposed to be purchased by a public utility cannot qualify for fixed financial parameters unless the public utility submits an application for fixed financial

parameters before or simultaneously with the application for authority to purchase the electric generating facility.

PSC 111.63 Information required. A public utility desiring fixed financial parameters shall provide all of the following information in its application:

- (1) The economic useful life of the facility, including technology type and commercial operation date.
- (2) The proposed return on equity and rate of return for the facility, including supporting materials such as relevant studies or testimony.
- (3) The proposed capital structure and financing mechanism for the facility.
- (4) The capital cost of the facility. For a purchased facility, the capital costs shall include the purchase price and the cost of any modifications or improvements to the facility that are necessary at time of the purchase.
- (5) The proposed method for determining the costs that may be recovered in rates.
- (6) Any other proposals or information regarding the recovery of the costs that the public utility determines are necessary for providing certainty to the public utility, investors and ratepayers in future rate-making proceedings.
- (7) The cost of debt plus issuance costs, and related credit ratings for any short-term or long-term project financing which may already have occurred.
- (8) Any other information that may be required by the commission.

PSC 111.64 Procedure. The hearing on an application for fixed financial parameters shall be held in conjunction with the review of the application for a certificate, as defined in s. 196.371(1), Stats., and, if applicable, in conjunction with any affiliated interest approval.

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PSC 111.65 Order. The commission may issue an order authorizing fixed financial parameters if the commission determines that the order will provide a sufficient degree of certainty to the public utility, investors, and ratepayers with respect to future recovery of the facility's capital costs and that the order is otherwise in the public interest. In making the determination, the Commission shall consider the return on equity, rate of return and capital structure appropriate to maintain the financial integrity of the public utility and shall consider the total cost of the proposed financing mechanism, compared to alternative financing options.

SECTION 3. EFFECTIVE DATE This rule shall take effect on the first day of the first month following publication in the Wisconsin administrative register as provided in s. 227.22(2)(intro.), Stats.

(end)

THE COMMISSION ORDERS:

These rules shall take effect on the first day of the first month following publication in the Wisconsin Administrative Register as provided in s. 227.22(2)(intro.), Stats.

Dated at Madison, Wisconsin, March 29, 2006

By the Commission:

Christy L. Zehner
Secretary to the Commission

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