

**Wisconsin Economic Development Association  
2006 Governor's Conference**  
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Monona Terrace Convention Center

**Major Site Selection Factors Panel  
Energy Issues**

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**Site Selection Factors for New Businesses  
Driven by Several Factors**

- Energy Prices for Commercial and Industrial Sectors
- Expectations for Future Factors Driving Energy Prices
- Major Cost Drivers and Impact on Utility Revenue Requirements
- State Regulatory Climate and Innovation
- Is There Help for Economic Development from Regulators?

## Prices for Electric/Natural Gas Energy In Wisconsin Have Increased, Although Sector Analysis Reveals Rates Remain Competitive

- Wisconsin Electric Energy Prices Still Below the National Average: Commercial & Industrial
- Wisconsin Still Competitive Among States in the Upper Midwest: Commercial & Industrial
- Electric Energy Prices Remain Below 1990 Levels Adjusted for Inflation

## Comparison of 2004 Retail Electric Prices Among Midwest States

(Prices in Cents per Kwh, Source: Energy Information Administration, US Census Bureau)

State	Residential.	Commercial	Industrial	Total Avg.
WI	<b>9.07</b>	7.24	<b>4.93</b>	6.88
MI*	8.33	<b>7.57</b>	4.92	<b>6.94</b>
IL*	8.37	7.54	4.65	6.80
MN	7.92	6.31	4.63	6.24
IN	<b>7.30</b>	<b>6.31</b>	<b>4.13</b>	<b>5.58</b>
IA	8.96	6.75	4.33	6.40
US	8.97	8.16	5.27	7.62

## Comparison of 2004 Natural Gas Prices Among Midwest States

(Average Prices in Dollars per Thousand Cubic Feet, Source: Energy Information Administration, US Census Bureau)

State	Residential.	Commercial	Industrial.
WI	<b>10.16</b>	8.71	7.92
MI	<b>8.52</b>	<b>7.98</b>	6.88
IL	9.41	<b>9.10</b>	8.47
MN	9.50	8.43	<b>6.57</b>
IN	9.98	8.56	<b>7.99</b>
IA	10.14	8.51	7.33
US	10.75	9.41	6.56

## Data Problems with Electric Price Comparisons Among Midwest States

- Do not factor in the Price Caps/Freezes in Place in MI/IL
- Retail Choice Initiatives Made Politically Possible by Rate Freezes
- IL Price Freeze to Expire in 2007, has been in place since 1999, Com Ed announced its filing for first general rate case since 1995, driven by "rising costs and significant capital investment in its delivery system." (Exelon Release, Jan. 2006)
- Increased Rates for Com Ed to be in place in IL, expected July, 2006
- Transition to Expected "Reverse Supply Auction" for IL utilities mired in controversy, litigation, opposition, but approved by the ICC in Jan., 2006

## Illinois Controversy (cont'd)

- Exelon took a \$1.2 billion charge to its earnings, driven by a write down of goodwill balances (announced Jan. 25, 2006)
- "Opposition to ComEd's (reverse auction wholesale) procurement proposal had put a cloud of uncertainty over both ComEd's financial future and its ability to supply reliable electricity at a reasonable price to residents of northern Illinois."

- John W. Rowe, Chairman and CEO of Exelon, ComEd parent company

Through Summer of 2005, only approximately 18.5 % of Illinois retail electric load has participated in competitive purchases from Retail Electric Suppliers, and the Power Purchase Option used by certain Ameren and ComEd non-residential customers, representing 30% of IL retail load, will not be offered in its present form after 2006.

## Factors Driving Future Rate Increases in Wisconsin

New Generation Construction, including the \$ 2.15 billion Wisconsin Energy Elm Road Coal Project, the \$590 million Wisconsin Energy Port Washington generation project, the \$ 752 million Wisconsin Public Service Corporation Weston 4 coal project, the approximately \$170 million Sheboygan Falls Power Ventures/Alliant Leased Generation project, and the approx. \$180 million Madison Gas and Electric West Madison Cogeneration Project.

Approximately \$4 billion in new generation costs have or will be incorporated in utility revenue requirements to reflect cost recovery of added facilities.

New Transmission Construction, which includes the announced plans of the American Transmission Company to add approximately \$1.5 billion in new infrastructure over the next ten years, will drive the rates paid by the utilities and cooperatives for transmission service in the coming decade.

Added Transmission Costs associated with the membership of Wisconsin's utilities and the American Transmission Company in the Midwest Independent System Operator, particularly for the MISO administration of its "Day 2" Day Ahead/Real Time generation market is adding significant amounts to utility costs, and these are now appearing in the revenue requirements of the utilities in their rate cases. The MISO is currently resolving its complex "settlements" process, of which there are 3,186 outstanding as of the close of December, 2005. Absent settlement resolution the net costs of the Day 2 Market to Wisconsin is not known at this time.

## **New Renewable Mandates? Resolution of Energy Efficiency Issues?**

Discussion of the Governor's Energy Task Force Recommendations, and the Cowles Montgomery Energy Efficiency and Renewables Legislation, SB 459.

(Energy Efficiency Budget, Per Meter Caps, Proposed 10% Renewable Portfolio Standard by 2015)

## Regulatory Climate/Innovation in Wisconsin

The Public Service Commission of Wisconsin has opened a “Cost of Service” Docket to examine the distribution of utility revenue requirements across rate classes. ***Investigation on the Commission’s Own Motion Regarding Principles Useful in Electric Cost-of-Service Studies and Rate Design, PSCW Docket No. 05-EI-137.***

This docket seeks to evaluate the current cost of service allocation methods practiced in Wisconsin in rate-making proceedings. Issues concerning allocation of production costs, fixed and variable, the use of appropriate demand allocators, and methods to apportion fuel costs will be studied. Should the Commission alter its current methods for allocating these costs using differing mixes of energy and demand factors than have historically been used in ratemaking?

*Discuss Wausau Paper Comments.*

## Commission Cost of Service Docket and Economic Development Rates

“Economic Development Rates are special rates, usually short lived, that are used to induce new demand for electricity or natural gas. The rates are used to encourage new firms to locate production facilities in a service territory or to encourage an existing facility to expand within the service territory rather than in some other area.”  
*PSCW Staff White Paper, July, 2005, PSCW Dkt. No. 05-EI-137*  
(Discuss WPSC Interest in Economic Development Rates)

## **PSCW Staff Draft Criteria for Applying Economic Development Rates**

(source, PSCW Staff White Paper, pg. 30)

- The rate is short lived. In the survey done by Commission staff, economic development rates usually last between two and five years.
- The rate targets a specific type of customer, usually a manufacturer. Many states require a minimum number of new jobs for the amount of electricity they use.
- Rate discounts often diminish over time. The first year discount may be as high as 50 percent but often drops to as low as 10 percent in the final year the special rate is in effect.
- There are often provisions to prevent adverse competitive consequences such as granting the same discount to any firm that directly competes with the firm that is granted an economic development rate.

## **Recent Change in Trends, Utility Rate Recovery for Economic Development Expenses**

PSCW Established a Standard for Recovery of Economic Development Expenses of Public Utilities in Rates, Dkt. No. 05-EI-15, which has been used for over 20 years in evaluating rate recovery of these expenses. The central tenet of the Commission's Policy has been targeted load additions to utility systems which do not increase overall production costs in ways that expand average customer costs.

## **Economic Development Costs Approved in Recent Rate Cases**

*Alliant-Wisconsin Power and Light*, PSCW Dkt. No.6680-UR-114,  
July 19, 2005:

“It is reasonable to authorize recovery of economic development costs related to customer assistance and business/load retention totaling \$279,000 on a Wisconsin retail basis.”

*Northern States Power/Xcel Wisconsin*, PSCW Dkt. No. 4220-UR-114, January, 2006:

“It is reasonable to authorize recovery of economic development costs related to customer assistance and business/load retention totaling \$246,000 on a Wisconsin retail basis.”