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PUBLIC SERVICE COMMISSION OF WISCONSIN

Joint Application of Wisconsin Power and Light Company, Wisconsin Public Service Corporation, and Madison Gas and Electric Company for Approval of the Sale and Purchase of Ownership Interests in the Columbia Energy Center, Located in Columbia County, Wisconsin

5-BS-214

FINAL DECISION

This is the Final Decision in the joint application filed by Wisconsin Power and Light (WP&L), Wisconsin Public Service Corporation (WPSC), and Madison Gas and Electric Company (MGE) (collectively, applicants) for approval of the transfer of partial ownership interests in Units 1 and 2 of the Columbia Energy Center (Columbia), located in Pardeeville, Wisconsin.

The application is GRANTED, subject to the conditions in this Final Decision.

Introduction

On August 9, 2016, the applicants applied to the Commission, pursuant to Wis. Stat. § 196.80, requesting authority for the transfer of ownership interests in Columbia representing approximately 80.3 megawatts (MW) of generating capacity from WPSC and MGE to WP&L. ([PSC REF#: 289975](#) (redacted) and [PSC REF#: 289974](#) (confidential).) The application proposes a permanent, incremental transfer of ownership interests in Columbia from WPSC and MGE to WP&L, in exchange for capital expenditures by WP&L, starting on January 1, 2016, and ending on June 1, 2020. The proposal modifies both the capital expenditure obligations of each owner and the ownership shares between the applicants.

On September 15, 2016, the Commission issued a Notice of Investigation in this docket. ([PSC REF#: 291635](#).) No requests to intervene were filed with the Commission. No hearing

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was required or held. However, the Commission provided an opportunity to be heard through the submission of written comments to the Commission Memorandum dated October 7, 2016. ([PSC REF#: 292794](#).) Written comments were received from the applicants ([PSC REF#: 292958](#)) and from the Citizens Utility Board ([PSC REF#: 292957](#)). The comments were specific to the deferral of revenue requirement impacts and accounting treatment.

The Commission considered this matter at its open meeting of October 20, 2016.

Findings of Fact

1. WP&L, WPSC, and MGE are investor-owned utilities as defined in Wis. Stat. § 196.01(5)(a) and provide electric service in Wisconsin.
2. Columbia is a jointly-owned, coal-fired, electric generation plant. The applicants' current ownership shares are: WP&L (46.2 percent), WPSC (31.8 percent), and MGE (22.0 percent).
3. WP&L operates the facility subject to a joint operating agreement.
4. The applicants have entered into an agreement, the "Columbia Ownership Transfer," under which up to 80.3 MW of capacity would permanently be transferred from WPSC and MGE to WP&L during the "Settlement Period" from January 1, 2016, to June 1, 2020. At the completion of the Settlement Period, WP&L will have majority ownership in the plant.
5. The value of the obligations under the Columbia Ownership Transfer are reasonable in relation to value of the MW being transferred.
6. It is reasonable that the applicants continue to account for the plan according to current accounting procedures.

7. It is reasonable that the applicants not defer any revenue requirement impacts for 2016 associated with the application.

8. It is reasonable to address the rate treatment of the non-fuel revenue requirement impacts from the asset transfer in 2017 and thereafter for WP&L and MGE in their respective rate cases pending before the Commission in dockets 6680-UR-120 and 3270-UR-121, respectively.

9. It is reasonable to require WPSC to defer the non-fuel revenue requirement impacts from the asset transfer beginning in 2017 and continuing until the Commission authorizes such deferral to end.

10. The proposed Columbia Ownership Transfer is consistent with the public interest.

11. It is reasonable to require the applicants to coordinate with the Midcontinent Independent System Operator, Inc. (MISO), to ensure ownership transfers are appropriately reflected. The ownership transfers are anticipated to have a *de minimus* effect on competition in the MISO market.

12. No significant environmental consequences are associated with this transaction.

13. Energy conservation, renewable resources, or other energy priorities listed in Wis. Stat. § 1.12 or 196.025, or their combination, are not cost-effective, technically feasible, or environmentally sound alternatives to the proposed ownership transfer.

14. The proposed ownership transfer is not expected to affect any historic properties under Wis. Stat. § 44.40, or any threatened or endangered species under Wis. Stat. § 29.604.

Conclusions of Law

1. WP&L, WPSC, and MGE are investor-owned utilities as defined in Wis. Stat. § 196.01(5)(a) and provide electric service in Wisconsin.
2. Columbia is an “operating unit or system” under Wis. Stat. § 196.80(1m)(e).
3. The Commission has authority under Wis. Stat. §§ 196.02, 196.06, 196.395, and 196.80 to issue this Final Decision authorizing the applicants’ proposed transfer of ownership interests in Columbia, subject to the conditions stated in this Final Decision.
4. The Commission may impose any term, condition, or requirement necessary to protect the public interest pursuant to Wis. Stat. §§ 196.02 and 196.395.
5. The proposed Columbia Ownership Transfer is consistent with the public interest, the standard for approval of the transaction under Wis. Stat. § 196.80.
6. This application is a Type III action under Wis. Admin. Code § PSC 4.10(2) and the preparation of neither an environmental impact statement nor an environmental assessment is necessary.

Opinion

WP&L, WPSC, and MGE are utilities as defined in Wis. Stat. § 196.01(5)(a) and provide electric service to approximately one million customers in Wisconsin.¹ Columbia consists of two coal-fired, electric generating units, designated as Unit 1 and Unit 2. The combined generating capacity of the two units is 1,112 megawatts (MW).² Unit 1 began operation in 1975 and Unit 2 in 1978. Columbia is currently jointly owned by the applicants. WP&L operates the

¹ WPSC also serves customers in the Upper Peninsula of Michigan.

² The turbine nameplate capacity of Columbia is 1,023 MW. The capacity of 1,112 used in the application represents the generator nameplate capacity, according to the applicants’ response to Data Request Item 1.01. ([PSC REF#: 292244.](#))

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facility subject to a joint operating agreement. The applicants' proposed permanent transfer of partial ownership interests, and the associated temporary shift in capital expenditures, would necessitate changes to the joint operating agreement.

The Columbia ownership transfer arose out of two agreements related to the Riverside Energy Center Expansion (Riverside) in docket 6680-CE-176: one between WP&L and MGE,³ and the other between WP&L, WPSC, and Wisconsin Electric Power Company (WEPCO).⁴ The Commission took no action on these settlement agreements as part of its decision in the Riverside docket.

The Riverside settlement agreements consist of four principal components, three of which describe purchase options for future capacity, and one which requires the parties to negotiate the Columbia Ownership Transfer, which is the subject of this application. Under the Columbia Ownership Transfer agreement, WPSC and MGE can opt out of their obligations to pay for certain capital expenditures associated with Columbia, which would then be incurred by WP&L, in return for which WP&L would acquire a proportional increase in its ownership share in Columbia. This agreement does not change the total plant capital investment at Columbia.

The applicants used an average of the 2015 year-end net plant balance, divided by a capacity of 1,112 MW to arrive at a price of \$830,000 per MW. For the years 2016 to 2020, the ownership percentages and associated MW of capacity would change according to the table below:

³ The agreement between WP&L and MGE was signed on January 14, 2016, and is excerpted in Appendix B of the application. ([PSC REF#: 289975](#) (redacted) and [PSC REF#: 289974](#) (confidential).)

⁴ The agreement between WP&L, WEPCO and WPSC was signed on December 16, 2015, and is excerpted in Appendix B of the application, [PSC REF#: 289975](#) (redacted) and [PSC REF#: 289974](#) (confidential).

Utility	Ownership Percentage		Capacity (MW)	
	2016	2020	2016	2020
WP&L	46.2%	53.4%	513.7	594.0
WPSC	31.8%	27.5%	353.6	306.2
MGE	22.0%	19.0%	244.6	211.7

Standard for Approval

Commission approval of the proposed transfer is required under Wis. Stat. § 196.80. Wisconsin Stat. § 196.80(1m)(e) provides that with the consent and approval, but not otherwise, a public utility may “[s]ell, acquire, lease or rent any public utility plant or property constituting an operating unit or system.” The standard for approval of a transaction under this statute is whether “the proposed action is consistent with the public interest.” Wis. Stat. § 196.80(3). In reaching its determination, the Commission is required to “take into consideration the reasonable value of the property and assets of the corporation to be acquired or merged.” *Id.*

Capital Expenditures and Ownership Percentage

The applicants will transfer capacity in-step with capital expenditures made by WP&L, with an annual true-up of ownership percentage on December 31, of 2016, 2017, 2018, and 2019. The final ownership percentage adjustment will take place on June 1, 2020.

The transfer of ownership shares is tied to the payment of capital expenditures by WP&L. However, the proposed transfer of ownership may change over time because MGE’s and WPSC’s participation is contingent on the independent discretion of each utility to opt-out of their capital expenditures. Thus, it is reasonable that the applicants file accounting entries showing the balances of plant in service at year end in each sub-account and for each unit of each of the applicants, and subsequent adjustments by March 15, of 2017, 2018, and 2019, and by June 30, 2020.

As the majority owner following the transfer of ownership shares, WP&L anticipates more efficient plant management and savings of overall administrative overhead expenses. Because all employees at Columbia are currently WP&L employees, there are no anticipated changes in staffing or the terms of employment at Columbia. However, changes to the joint operating agreement under which WP&L operates the facility would be necessitated by the transfer.

The Commission finds that the transfer is consistent with the public interest. The Columbia Ownership Transfer provides additional capacity and energy to WP&L during the construction of Riverside, and because the transfer of ownership interests would be permanent, the improvements to WP&L's energy portfolio would persist after the Riverside in-service date. Additionally, the transfer of ownership shares rebalances the applicants' respective energy portfolios, reducing risk and providing reliability for customers.

Under the transfer agreement, the following is permitted:

- A transfer of up to approximately 47.4 MW of Columbia capacity from WPSC to WP&L;
- A transfer of up to approximately 32.9 MW of Columbia capacity from MGE to WP&L;
- An option for WPSC and MGE to opt out of expected Columbia capital expenditures authorized in docket 5-CE-141 to upgrade the coal pulverizers and steam turbines at Columbia Units 1 and 2. The total estimated capital expenditures for the project authorized in docket 5-CE-141 is \$130 million.

The applicants will continue to share capital expenditures for the Selective Catalytic Reduction (SCR) system⁵ at Columbia Unit 2 consistent with their current ownership percentages.

The schedule of ownership transfers and capital expenditures is anticipated to occur as summarized in the following table:

Applicant		2015	2016	2017	2018	2019	2020	End of Settlement Period
WP&L	MW – current	513.7	–	–	–	–	–	–
	MW – additional	--	44.7	23.4	11.5	0.7	–	80.3
	<i>MW – total, under transfer agreement</i>	<i>513.7</i>	<i>558.4</i>	<i>581.8</i>	<i>593.3</i>	<i>594.0</i>	<i>594.0</i>	<i>594.0</i>
	Capital Expenditures (Million \$) – current	–	\$31.9	\$19.6	\$10.5	\$0.6	–	\$62.6
	Capital Expenditures (Million \$) – additional	–	\$37.1	\$19.4	\$9.5	\$0.5	–	\$66.5
	<i>Capital Expenditures (Million \$) – total, under transfer agreement</i>	<i>–</i>	<i>\$69</i>	<i>\$39</i>	<i>\$20</i>	<i>\$1.2</i>	<i>\$0</i>	<i>\$129.2</i>
	Ownership % – current	46.2%	–	–	–	–	–	–
	Ownership % – additional	–	4.0%	2.1%	1.0%	0.06%	–	7.2%
	<i>Ownership % – total, under transfer agreement</i>	<i>–</i>	<i>50.2%</i>	<i>52.3%</i>	<i>53.4%</i>	<i>53.4%</i>	<i>53.4%</i>	<i>53.4</i>
WPSC	MW – current	353.6	–	–	–	–	–	–
	MW – reduction	–	(26.4)	(13.8)	(6.8)	(0.4)	–	(47.4)
	<i>MW – total, under transfer agreement</i>	<i>353.6</i>	<i>327.2</i>	<i>313.4</i>	<i>306.6</i>	<i>306.2</i>	<i>306.2</i>	<i>306.2</i>
	Capital Expenditures (Million \$)	–	(\$21.9)	(\$11.5)	(\$5.6)	(\$0.3)	–	(\$39.3)
	Ownership %	31.8%	29.4%	28.2%	27.6%	27.5%	27.5%	27.5%
MGE	MW – current	244.6	–	–	–	–	–	--
	MW – reduction	–	(18.3)	(9.6)	(4.7)	(0.3)	–	(32.9)
	<i>MW – total, under transfer agreement</i>	<i>244.6</i>	<i>226.3</i>	<i>216.7</i>	<i>212.0</i>	<i>211.7</i>	<i>211.7</i>	<i>211.7</i>
	Capital Expenditures (Million \$)	–	(\$15.2)	(\$7.9)	(\$3.9)	(\$0.2)	–	(\$27.2)
	Ownership %	22.0%	20.4%	19.5%	19.1%	19.0%	19.0%	19.0%

⁵ Authorized in docket 5-CE-143 ([PSC REF#: 230775](#)).

Net Book Value

The net book value for each of the co-owners is currently not proportional to the ownership percentages for a variety of reasons, one of them being that the co-owners each have different capital structures. The main reason, however, is that each of the three co-owners account for the plant differently. That is, the three co-owners have not consistently recorded the assets that comprise Columbia in the same Federal Energy Regulatory Commission sub-accounts and in the same units.⁶

Commission staff noted that it may be reasonable for the Commission to direct the three co-owners to align their accounting for the assets that comprise Columbia so that each asset is recorded in the same sub-account and the same unit on the books of each of the co-owners. The applicants submitted comments noting that changing the accounting at this point would be difficult for a number of reasons. The Commission believes that there is generally value in having the co-owners of a jointly-owned generating plant account for that plant on a consistent basis. However, in this instance the Commission finds that there is not a need for a mid-course change because doing so would not result in a material difference. The Commission would, however, prefer that co-owners of future jointly-owned plants account for the plant on a consistent basis from the outset.

⁶ The units are Unit 1, Unit 2, and Unit 1 and 2-Common.

Accounting Treatment

While the actual asset transfer could not occur prior to regulatory approval, the applicants have operated as if this agreement has been in effect since January 1, 2016. Specifically, WP&L has paid for all of the capital expenditures⁷ at Columbia in 2016, with the exception of the costs related to the SCR project, and has recorded those expenditures as Construction Work in Progress. As the application was not approved at the time WP&L began paying for the capital expenditures, the Commission does not find it reasonable to authorize deferral for any of the applicants for 2016.

The Commission finds it reasonable to address the revenue requirement treatment of the asset transfer in 2017 and thereafter for WP&L and MGE in their respective rate cases pending before the Commission. In addition, because WPSC did not file a rate case for the 2017 test year, the Commission finds it reasonable to direct WPSC to defer the non-fuel revenue requirement impacts of the asset transfer beginning in 2017 and continuing until the Commission authorizes such deferral to end. Addressing the revenue requirement impacts in this manner ensures reasonable consideration of the revenue impacts in the context of a rate case.

MISO Considerations

The applicants shall coordinate with MISO, to ensure the ownership transfers are appropriately reflected. The changes in ownership shares are anticipated to have a *de minimus* effect on the MISO market.

⁷ Specific to 5-CE-141 ([PSC REF#: 197134](#)).

Environmental Impacts of the Proposed Ownership Share Transfer

This is a Type III action under Wis. Admin. Code § PSC 4.10(3). No unusual circumstances suggesting the likelihood of a significant environmental effects on the human environment have come to the Commission's attention. Preparation of an environmental impact statement under Wis. Stat. § 1.11 is not required. The proposed ownership transfer is not expected to affect any historic properties under Wis. Stat. § 44.40, or any threatened or endangered species under Wis. Stat. § 29.604.

Order

1. The proposed Columbia Ownership Transfer agreement, as described in the joint application and in this Final Decision, is granted, subject to conditions.
2. The applicants shall file accounting entries showing the balances of plant in service at year end in each sub-account and for each unit of each of the applicants, and subsequent adjustments by March 15, of 2017, 2018, and 2019, and by June 30, 2020.
3. The applicants shall not defer revenue requirement impacts from this application for 2016.
4. The rate treatment of the non-fuel revenue requirement impacts from the asset transfer in 2017 and thereafter for WP&L and MGE shall be addressed in their respective rate cases pending before the Commission.
5. WPSC shall defer the non-fuel revenue requirement impacts from the asset transfer beginning in 2017 and continuing until the Commission authorizes such deferral to end.

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6. The applicants shall continue to account for the plant according to current accounting procedures.

7. This Final Decision shall be effective one day after the date of service.

8. Jurisdiction is retained.

Dated at Madison, Wisconsin, this 8th day of November, 2016.

By the Commission:

A handwritten signature in black ink, appearing to read "Sandra J. Paske". The signature is fluid and cursive, with a long horizontal stroke at the end.

Sandra J. Paske
Secretary to the Commission

SJP:HMLO:dlh:DL:01471387

See attached Notice of Rights

PUBLIC SERVICE COMMISSION OF WISCONSIN
610 North Whitney Way
P.O. Box 7854
Madison, Wisconsin 53707-7854

**NOTICE OF RIGHTS FOR REHEARING OR JUDICIAL REVIEW, THE
TIMES ALLOWED FOR EACH, AND THE IDENTIFICATION OF THE
PARTY TO BE NAMED AS RESPONDENT**

The following notice is served on you as part of the Commission's written decision. This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

PETITION FOR REHEARING

If this decision is an order following a contested case proceeding as defined in Wis. Stat. § 227.01(3), a person aggrieved by the decision has a right to petition the Commission for rehearing within 20 days of the date of service of this decision, as provided in Wis. Stat. § 227.49. The date of service is shown on the first page. If there is no date on the first page, the date of service is shown immediately above the signature line. The petition for rehearing must be filed with the Public Service Commission of Wisconsin and served on the parties. An appeal of this decision may also be taken directly to circuit court through the filing of a petition for judicial review. It is not necessary to first petition for rehearing.

PETITION FOR JUDICIAL REVIEW

A person aggrieved by this decision has a right to petition for judicial review as provided in Wis. Stat. § 227.53. In a contested case, the petition must be filed in circuit court and served upon the Public Service Commission of Wisconsin within 30 days of the date of service of this decision if there has been no petition for rehearing. If a timely petition for rehearing has been filed, the petition for judicial review must be filed within 30 days of the date of service of the order finally disposing of the petition for rehearing, or within 30 days after the final disposition of the petition for rehearing by operation of law pursuant to Wis. Stat. § 227.49(5), whichever is sooner. If an *untimely* petition for rehearing is filed, the 30-day period to petition for judicial review commences the date the Commission serves its original decision.⁸ The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

If this decision is an order denying rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not permitted.

Revised: March 27, 2013

⁸ See *Currier v. Wisconsin Dep't of Revenue*, 2006 WI App 12, 288 Wis. 2d 693, 709 N.W.2d 520.