BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Power and Light	)	
Company for Authority to Adjust Rates in	)	Docket No. 6680-FR-104
Accordance with its 2012 Fuel Cost Plan	)	

REBUTTAL TESTIMONY OF JONATHAN WALLACH ON BEHALF OF THE CITIZENS UTILITY BOARD OF WISCONSIN

November 9, 2011

Q: Please state your name, occupation, and business address.

A: My name is Jonathan F. Wallach. I am Vice President of Resource Insight, Inc., 5 Water Street, Arlington, Massachusetts.

Q: Are you the same Jonathan Wallach that filed direct testimony in this proceeding?

A: Yes.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of the Citizens Utility Board (CUB).

Q: What is the purpose of your rebuttal testimony?

A: This rebuttal testimony responds to the direct testimony filed in this proceeding by Commission staff member Michael A. Ritsema. Specifically, this rebuttal testimony responds to Mr. Ritsema's proposed adjustments to monitored fuel costs and to his discussion regarding the treatment of the costs to comply with the Cross State Air Pollution Rule (CSAPR).

Q: Please describe Mr. Ritsema's proposed adjustments.

A: As shown in Schedule 2 of PSC Exhibit Ritsema 1, Mr. Ritsema proposes fourteen adjustments to the Company's proposed monitored fuel costs for 2012, as filed on August 17, 2011.[1] These adjustments are derived based on a series of fuel runs by the Company in response to MAR-25. In total, Mr. Ritsema's proposed adjustments increase 2012 monitored fuel costs by about $9.8 million, relative to the Company's August 17, 2011 proposal.

According to Schedule 2 of PSC Exhibit Ritsema 1, the largest adjustment is due to an update of electric forward prices to reflect market prices as of September 15, 2011, which increases monitored fuel costs by about $18.3 million. The next-largest adjustment results from incorporating CSAPR-related NOx allowance prices in plant dispatch costs, which reduces monitored fuel costs by about $6.7 million.

This latter adjustment for CSAPR-related NOx allowance prices is one of two CSAPR-related adjustments proposed by Mr. Ritsema. The second CSAPR-related adjustment is based on a fuel run that: (1) incorporates an SO_2 allowance price of $3,000/ton in plant dispatch costs; and (2) constrains dispatch of the Company's coal plants in order to limit SO_2 emissions to 118% of the Company's CSAPR-related emissions limit. This adjustment reduces monitored fuel costs by about $0.5 million.

[1] Mr. Ritsema includes as a fifteenth adjustment the $9.2 million increase from the Company's original proposed monitored fuel costs, as filed on May 18, 2011, to the revised August 17, 2011 proposal. In the discussion that follows, I describe all adjustments relative to the Company's revised August 17, 2011 proposal for monitored fuel costs. In addition, I describe all adjustments relative to total fuel cost, before accounting for the impact of Edgewater 5 deferral or for allowance and chemical costs currently recovered through base rates.

Q: Did Mr. Ritsema request any other CSAPR-related fuel runs from the Company?

A: Yes. Mr. Ritsema requested a fuel run that: (1) incorporates an SO_2 allowance price of $3,000/ton in plant dispatch costs; and (2) constrains dispatch of the Company's coal plants in order to limit SO_2 emissions to 100% of the Company's CSAPR-related emissions limit.[2] According to Mr. Ritsema, this fuel run reduces monitored fuel costs by about $5.2 million. The reduction to monitored fuel costs in this case is about $4.7 million more than the $0.5 million reduction from the fuel run described above that constrains emissions to 118% of the emissions limit. In other words, these fuel runs indicate that the Company could reduce fuel costs by about $4.7 million by reducing SO_2 emissions from its coal plants from 118% of the CSAPR limit to 100% of the CSAPR limit.[3]

Q: Does Mr. Ritsema propose to adjust monitored fuel costs based on this 100% compliance fuel run?

A: No. As noted above, Mr. Ritsema proposes an adjustment based on the more-costly 118% compliance fuel run.

If, instead, Mr. Ritsema had proposed an adjustment based on the 100% compliance fuel run, his adjustments in total would have increased 2012 monitored fuel costs by about $5.1 million, relative to the Company's August 17, 2011 proposal.

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[2] As I discussed in my direct testimony, this was the fuel run provided in response to MAR-25.12.

[3] In fact, these runs indicate that the Company might be able to further reduce fuel costs by over-complying (i.e., reducing emissions below CSAPR compliance limits) and either selling excess allocated allowances into the market or banking such excess allowances for future use.

Q: Should the Company's proposed monitored fuel costs for 2012 be adjusted to reflect the results of this 100% compliance run?

A: Neither the adjustment from the 100% compliance run, nor from the 118% compliance run is appropriate at this time. As I discussed in my direct testimony, market prices for SO_2 and NOx allowances have dropped sharply over the last few months and have been trading at much lower prices than used in either of these fuel runs.[4] As a result, none of the compliance measures assumed for these runs, except perhaps for the Nelson Dewey fuel-switch, may be cost-effective compared to allowance purchases. Moreover, even if these compliance measures were to prove cost-effective compared to allowance purchases, the Company has not demonstrated that the mix of measures assumed for these runs represent the least-cost strategy for meeting either 118% or 100% of the emission limits.

Q: How should CSAPR compliance costs be reflected in monitored fuel costs for 2012?

A: As I discussed in my direct testimony, given uncertainties associated with CSAPR requirements and compliance costs for 2012, there are two reasonable options for the treatment of CSAPR compliance costs in monitored fuel costs. One option would be to not reflect any CSAPR-related costs in 2012 monitored fuel costs and instead defer recovery of CSAPR compliance costs until 2013. Alternatively, monitored fuel costs could be estimated based on a fuel run that: (1) calculates the cost of allowance purchases based on the current market price for SO_2 allowances; (2) includes the current market prices for SO_2 and NOx allowances in plant dispatch costs; and (3) updates the cost of energy purchases

[4] In response to 4-CUB/Inter-29 in Docket No. 6630-FR-103 (PSC REF #: 155280), Wisconsin Electric Power Company reported average bid/ask prices for trades on October 24, 2011 of \$875/ton for SO_2 and \$1,900/ton for both annual and seasonal NOx.

from the Midwest Independent Transmission System Operator to incorporate current forward market prices at the Cinergy Hub.

Q: Has the Company estimated monitored fuel costs based on a fuel run with these alternative assumptions?

A: Yes. In response to 8-CUB/Int-1, the Company estimated 2012 monitored fuel costs with a fuel run that incorporates the above alternative assumptions for allowance and energy market prices (referred to as the Current Market Price Fuel Run). Specifically, at CUB's request, the Company started with a fuel run that incorporates all of Mr. Ritsema's non-CSAPR-related adjustments, including updated energy market prices based on forward market prices as of September 15, 2011. Also at CUB's request, the Company then assumed the following allowance prices for the purposes of both estimating the cost of allowance purchases and deriving plant dispatch costs.[5]

Table 1: Assumed Allowance Market Prices

	Market Price
SO2 Allowances	$800/ton
Annual NOx Allowances	$1,800/ton
Seasonal NOx Allowances	$2,100/ton

According to the Company's response to 8-CUB/Int-1b, the Current Market Price Fuel Run yields an estimate for 2012 monitored fuel costs of approximately $366.5 million, which is about $8.7 million less than the Company's August 17, 2011 estimate of $375.2 million and about $18.6 million less than Mr. Ritsema's adjusted estimate of $385.0 million.

[5] These assumptions are consistent with current allowance market prices.

Q: By what amount would retail revenues increase if 2012 monitored fuel costs were estimated based on the Current Market Price Fuel Run?

A: According to the Company's response to 8-CUB/Int-1b, after adjusting for the impact of the Edgewater 5 deferral and for the recovery of allowance and chemical costs in base rates, 2012 monitored fuel costs would increase by about $18.1 million relative to levels approved in the Docket No. 6680-UR-117 reopener. On a retail basis, revenues would increase by about $14.0 million, or about 1.4% from total retail revenues at current rates.

Q: Should the Current Market Price Fuel Run be updated prior to a Commission decision in this proceeding?

A: Yes. The Company should update this fuel run with current data for: (1) electric market prices and hedges; (2) natural gas market prices and hedges; (3) spot coal prices and rail delivery surcharges; and (4) costs for new purchase contracts in the same manner as discussed by Mr. Ritsema. In addition, the Company should update this fuel run with current market prices for SO_2 and NOx allowance prices.

Q: How should 2012 monitored fuel costs be estimated in the event that the Commission decides to defer CSAPR-related costs?

A: There are two reasonable approaches for estimating 2012 monitored fuel costs, in the event that the Commission chooses to defer CSAPR compliance costs.

One approach would be to assume that the Company defers only the cost of allowance purchases required to meet CSAPR emissions limits. In this case, the Company would set 2012 monitored fuel costs based on the Current Market Price Fuel Run discussed above for the non-deferral scenario with two changes. First, the alternative fuel run would be updated with current data for fuel and allowance prices, as discussed above. Second, the cost to purchase SO_2 allowances in order to meet CSAPR limits would be set to zero.

The other approach would be to assume that the Company defers not only allowance-purchase costs, but also incremental generation and power-purchase costs resulting from compliance with CSAPR requirements. Under this second approach, the Company would set 2012 monitored fuel costs based on the fuel run provided in response to MAR-25.9, with the same two changes described above for the Current Market Price Fuel Run.

Q: Based on the current fuel runs, by what amount would retail revenues increase under these two approaches for reflecting the deferral of CSAPR compliance costs?

A: Based on the Current Market Price Fuel Run provided by the Company in response to 8-CUB/Int-1b, if the Company were to defer only the cost of allowance purchases, retail revenues would increase by approximately $[redacted] million, or about [redacted]% from total retail revenues at current rates. Based on the fuel run provided by the Company in response to MAR-25.9, if the Company were to defer both the cost of allowance purchases and other CSAPR-related generation costs, retail revenues would increase by approximately $[redacted] million, or about [redacted]% from total retail revenues at current rates.

Q: Does Mr. Ritsema discuss the treatment of CSAPR-related costs in 2012 monitored fuel costs?

A: Yes. Mr. Ritsema discusses four options for reflecting CSAPR-related costs in 2012 monitored fuel costs and for adjusting the 2% bandwidth on monitored fuel costs:

1. No deferral of CSAPR-related costs or tightening of the bandwidth.

2. No deferral of CSAPR-related costs, but tightening of the bandwidth to 0.5%.
3. Suspension of the bandwidth for 2012.
4. Deferral of CSAPR-related costs, but without tightening of the bandwidth.

Q: Do you have any comments regarding Mr. Ritsema's options?

A: As I discussed in my direct testimony, regardless of whether or to what extent CSAPR-related costs are deferred or reflected in 2012 monitored fuel costs, it would be reasonable and appropriate to suspend the 2% bandwidth on monitored fuel costs for 2012. However, the Company would continue to bear the burden of demonstrating that all CSAPR compliance costs, as well as all other fuel costs, have been prudently incurred.

Q: Does this complete your rebuttal testimony?

A: Yes.