

Date Mailed February 16, 2001
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BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application for Proposed Modifications to Wisconsin Electric Power Company's Gas Cost Recovery Mechanism to a Gas Cost Incentive Mechanism and Establishment of a Single Effective Gas Cost for Customers Served by Wisconsin Electric Power Company and Wisconsin Gas Company 6630-GR-101

Application for Proposed Modifications to Wisconsin Gas Company's Existing Gas Cost Recovery Mechanism and Establishment of a Single Effective Gas Cost for Customers Served by Wisconsin Gas Company and Wisconsin Electric Power Company 6650-GR-116

**FINAL DECISION**

This is the final decision concerning the applications of Wisconsin Electric Power Company (WEPCO) and Wisconsin Gas Company (WGC), collectively Applicants, for approval to modify their existing gas cost recovery mechanisms (GCRM) and to establish a single gas cost for customers served by WEPCO and WGC.

**Introduction**

On April 18, 2000, WGC made a comprehensive filing for approval to modify its existing incentive GCRM. WEPCO made a filing on May 23, 2000, to eliminate its existing modified one-for-one GCRM and adopt the incentive GCRM of WGC.

Applicants, as natural gas public utilities, were required by the Commission's order in docket 05-GI-106 to implement a GCRM consistent with the requirements of that order. WGC elected to implement an incentive GCRM, which was approved by the Commission in

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docket 6650-GR-113. WEPCO elected to implement a modified one-for-one GCRM, which was approved by the Commission in docket 6630-GR-100. The Applicants now seek Commission approval under Wis. Stat. § 196.20 (2m) for authority to implement revised GCRMs, consistent with the Commission order in docket 05-GI-106 which directs that utilities held under common ownership have similar GCRMs<sup>1</sup>.

By letters dated May 31, 2000, Applicants also requested to establish a single gas cost for customers served by WEPCO and WGC, pursuant to Wis. Stat. §§ 196.03, 196.20(2m) and 196.52. Specifically, Applicants proposed to: 1) combine all costs authorized for PGA recovery; 2) establish new base gas cost components; 3) calculate future purchased gas adjustment cost factors based on the combined costs and combined billing determinants; and 4) apply the resulting cost factors to all natural gas customers of the Applicants.

The applications were processed concurrently. On June 20, 2000, the Commission held a prehearing conference for both applications. A joint hearing was held on August 9, 2000.

The Commission considered this matter at its open meeting on December 12, 2000. On January 24, 2001, the Commission issued an interim order in this docket related to WGC's risk management program. This final decision incorporates the decision made in that interim order and supercedes it. This final decision also supercedes the interim order issued in this docket, 6650-GR-116, mailed October 12, 2000.

### **Findings of Fact**

1. Authorizing both Applicants similar GCRM treatment for both fixed and variable pipeline costs appropriately avoids cost shifting.

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<sup>1</sup> See Findings of Fact, Conclusions of Law and Order, docket 05-GI-106, November 8, 1996, page 25.

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2. It is reasonable to include both fixed pipeline capacity discounts and variable pipeline costs as incentive components of both Applicants' GCRMs.
3. Symmetrical GCRM treatment for incremental pipeline discounts above previous levels, and for discounts lost, achieves proper balance in the implementation of the mechanisms.
4. It is reasonable to modify the gas supply segment of the incentive portion of Applicants' GCRMs to include Canadian-based supply on a consistent basis with domestic firm supply.
5. It is reasonable that the weighted index for establishing the reference budgets for both Applicants be updated to reflect utilization factors of the supply regions based on two-year historical usage, including Canadian-based supply; and that such historical usage be adjusted for anticipated effects of annual supply changes approved in the annual supply plan review process.
6. It is reasonable to approve WGC's risk management program concurrent with the approval of its GCRM.
7. It is reasonable to allow WGC to capture market inefficiencies, where they exist, by retrading hedge positions in futures options prior to their expiration dates and to include the costs and results of such retrades in the incentive portion of its GCRM.
8. It is reasonable for WGC to include carrying costs, certain tariffed storage-injection and redelivery fuel charges, and variable charges in the cost/benefit calculation of arbitrage activity.
9. It is reasonable to use the "Dealer Commercial Paper" (90 days) rate for the carrying cost of money in the cost/benefit calculation of arbitrage activity.

10. It is not reasonable to include all passive hedging activity in the incentive mechanism because of potential financial harm to ratepayers.
11. It is reasonable to modify, for both Applicants, the method of forecasting capacity release and opportunity sales to use a four-year rolling average of historical capacity release/opportunity sales revenue for the reference budgets.
12. It is reasonable to retain the current WGC supplier reliability premium of 2.5 percent in the revised mechanism for both Applicants.
13. For the sharing calculation, a revised tolerance band of 1.0 percent, reduced from WGC's existing 1.5 percent, is reasonable for both Applicants.
14. A sharing band of 5.0 percent, combined with the tolerance band of 1.0 percent, for a total incentive cap of 6.0 percent, is reasonable for both Applicants.
15. It is reasonable for both Applicants to compute the incentive sharing calculation using only those costs that are incentive components.
16. The Applicants did not present an adequate record to support the combination of gas costs at this time.
17. It is appropriate for WGC to continue using market-based pricing for its interruptible sales service offerings.
18. It is reasonable for WGC to continue its practice of developing separate market-based rates for customers taking interruptible sales service in its ANR and Northern Natural service territories.
19. It is reasonable for WGC to retain the 102.5 percent multiplier applied to its WACOG rate when determining the minimum rates for interruptible sales service.

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20. It is reasonable for WEPCO to revise its current charge for lost and unaccounted for gas to a credit reflecting a gain of 0.44 percent and for WGC to implement a new credit for lost and unaccounted for gas reflecting a gain of 1.18 percent.

### **Conclusions of Law**

1. The Commission has authority under Wis. Stat. §§ 1.11, 196.02, 196.03, 196.20, 196.37, 196.395, 196.40 and 196.52 to issue an order approving gas cost recovery mechanisms for WGC and for WEPCO and to authorize revisions to the WGC risk management program.

2. The gas cost recovery mechanisms authorized for WGC and WEPCO are consistent with the principles enunciated in the order in docket 05-GI-106.

### **Opinion**

#### **Applicants and Their Business**

WEPCO is a public utility as defined in Wis. Stats. § 196.01(5)(a), operating as an electric, natural gas, and steam utility. WEPCO is engaged in the generation, transmission, distribution, and sale of electric energy in service areas in southeast, east central, and northern Wisconsin and in the Upper Peninsula of Michigan. WEPCO is engaged in the purchase, distribution, and sale of natural gas to retail customers in the southeastern and east central portions of Wisconsin. WEPCO also operates as a steam heating utility in certain areas of Milwaukee and Wauwatosa, Wisconsin.

On January 1, 1987, WEPCO reorganized under Wis. Stats. § 196.795, as authorized by the Commission's order in docket 9402-YO-100, dated May 28, 1986. The reorganization

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changed WEPCO and its former subsidiary, Wisconsin Natural Gas Company, to separate subsidiaries of a parent holding company, Wisconsin Energy Corporation. The steam utility remained within WEPCO. On January 1, 1996, Wisconsin Natural Gas Company merged into WEPCO.

On March 15, 2000, the Commission issued a final decision in dockets 9401-YO-100 and 9402-YO-101 authorizing Wisconsin Energy Corporation to acquire 100 percent of the outstanding common stock of WICOR, Inc., the parent holding company of WGC.

WGC is a public utility as defined in Wis. Stats. § 196.01(5)(a), and is engaged in the purchase, distribution and sale of natural gas to its customers in numerous cities and communities throughout Wisconsin including metropolitan Milwaukee. WGC also operates a water utility. Applicant is a wholly owned subsidiary of WICOR, Inc., which is wholly owned by Wisconsin Energy Corporation.

### **Gas Cost Recovery Mechanism Modifications**

Applicants both proposed modifications to their existing GCRMs. Specifically, WGC filed for approval to modify its existing incentive GCRM, and WEPCO filed to eliminate its existing modified one-for-one GCRM and adopt the GCRM of WGC. Specific proposals are described below.

**Fixed and Variable Pipeline Costs** WGC's current GCRM provides for one-for-one cost recovery of variable pipeline transportation charges, and incentive treatment of fixed pipeline capacity discounts. Fixed and variable pipeline costs are related, and should receive similar treatment in the GCRMs. Similar treatment of these costs helps prevent cost shifting

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opportunities between one-for-one items and incentive items. It is reasonable to include both fixed pipeline capacity discounts and variable pipeline transportation costs in the incentive portion of the GCRMs. In order to provide equality between ratepayers and shareholders, both incremental pipeline discounts above the previous level and discounts lost shall go to the sharing band, and be shared equally between shareholders and ratepayers, subject to the limits of the GCRMs. These provisions apply to both Applicants' GCRMs.

The record in this docket is not specific with respect to how variable costs will be defined in the reference budget, nor does it specify what constitutes a capacity discount. On or before March 15, 2001, Applicants should present their proposal on these issues, with final disposition delegated to Commission staff.

**Commodity Purchases** When WGC's existing GCRM was established, Canadian-based supply was priced using a complex formula. Because of the difficulty in assessing the commodity portion of the bundled Canadian gas supplies, all costs associated with WGC's Canadian-based supply had been excluded from the incentive component of the WGC GCRM and treated on a pass-through cost basis. Since that time, the majority of WGC's Canadian-based contracts have been restructured and priced at a single market-area index price. With these restructured contracts, it is appropriate to include the Canadian-based supply contracts in the gas supply segment of the incentive portion of both Applicants' GCRMs. Such treatment is consistent with how WGC's firm domestic gas supply is treated within the incentive component of the WGC GCRM.

Although a small portion of WGC's Canadian-based supply is still provided under the previous formula methodology, it is reasonable to include all Canadian supply costs in the

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incentive portion of the GCRM. However, the fixed cost components in these contracts' pricing formulas should be assigned to the appropriate cost category of the Applicants' GCRMs. The fixed pipeline transmission costs specified in the Canadian supply contracts should be included with other fixed pipeline capacity costs. The gas inventory charges (GICs) included in the contracts should be included in the incentive component of the Applicants' GCRMs, as part of the supplier reliability premium component.

City gate purchases are treated entirely as commodity costs because such costs, although bundled with transportation costs, are substitutes for commodity purchases. As such, no portion of city gate purchase costs should be included in firm capacity costs or other pipeline transportation cost categories, unless approved through the annual supply plan process.

Corresponding accounting treatment shall reflect this approach for both Applicants.

**Weighted Index for Commodity Costs** Currently, the reference budget weights price indices for each supply region based on 1) the MDQ of the contracts approved in the annual supply plan review, and 2) the utilization of each contract based on the most recent historical purchases from those contracts. Historical use factors have not always been reflective of expected commodity purchases for the upcoming year. It is reasonable to reflect the anticipated effect of changes to Applicants' supply portfolios approved in the annual supply plan review when establishing the reference budgets. The reference budgets, therefore, should reflect utilization factors of the supply regions based on two-year historical usage, adjusted for anticipated effects of annual supply changes approved by the Commission.

With the inclusion of Canadian-based supply in the gas supply segment of the incentive component of the GCRMs, it is reasonable that the calculations of the reference budgets also

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reflect the MDQs of the Canadian-based supply along with all other supply contracts approved by the Commission in Applicants' annual supply plan reviews.

**Risk Management Programs** WGC's risk management program was first approved by the Commission in 1995. At that time it was appropriate to limit the scope of both the program and the term of the Commission's approval because of the lack of experience of both the Commission and WGC with risk management activity. The practice up to now has been for WGC to request separate approvals, on a semi-annual basis, to cover hedging activity separately for the summer and winter periods.

WGC's program has expanded since 1995, but has not changed since its last semi-annual approval in July 1999. It is reasonable that the review and approval of the risk management program be part of this docket, effective for the duration of the GCRM mechanism approved in this docket. WGC shall report changes to the target volumes subject to risk management activity in their annual gas supply plan. WGC shall continue reporting results on a monthly basis, as is current practice.

WEPCO has never engaged in hedging activity nor has it been given permission by this Commission to engage in such activity. WEPCO has not requested, as part of this docket, permission to engage in hedging or any kind of derivatives activity. If, in the future, WEPCO wishes to engage in hedging or derivatives activity, it shall request Commission approval in advance.

WGC is currently authorized by the Commission to engage in two types of risk management activities: arbitrage activity, which is included in the incentive portion of the GCRM, and passive activities, which receive one-for-one or pass-through GCRM treatment.

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WGC states that it could capture greater efficiencies and achieve better results if the passive activities were included in the incentive portion of the GCRM. WGC proposed two changes to the existing passive program in order to make it part of the incentive portion of the GCRM. The first change would allow WGC to capture value by retrading options. The second change would share the cash flows from hedging between ratepayers and shareholders.

Because the financial markets and physical markets do not move in lock step with one another, there can be opportunities to capture value by retrading hedged positions in futures options. It is reasonable that WGC be able to capture value caused by these market inefficiencies when they present themselves. These transactions can benefit ratepayers and are appropriately includable in the incentive mechanism <sup>2</sup>.

WGC's second proposal can be characterized as a profit mechanism rather than a mechanism to reduce price volatility. The proposal to share the cash flows from hedging between ratepayers and shareholders in the incentive mechanism may benefit shareholders but does not appear to be in the interest of ratepayers. For a benefit to accrue to ratepayers, WGC would need to capture inefficiencies in the market great enough to offset the ratepayers reduced cash flow. The record does not support the proposition that this degree of inefficiency is likely to occur.

WGC requested the inclusion of carrying costs, tariffed storage-injection and redelivery fuel charges, and other variable charges in the cost/benefit calculation of arbitrage activity.

These items were not originally included because neither WGC nor the Commission staff had

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<sup>2</sup> This item was the subject of the Interim Order in this docket mailed on January 24, 2001. This Final Decision incorporates the substance and supercedes that Interim Order.

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any experience with this type of activity when the program was first proposed. Inclusion of these items better accounts for the total effect of arbitrage.

To calculate the carrying costs in the arbitrage calculation, WGC proposed using the “Dealer Commercial Paper (90 days)” rate as published in the *Wall Street Journal*. The Dealer Commercial Paper (90 days) rate is appropriate because it is updated on a daily basis, reflects current market interest rates and is a close proxy for actual rates paid by WGC to its securities dealer. It is appropriate to apply the specific daily-published rate to the transaction on the day the arbitrage is executed.

**Capacity Release and Opportunity Sales** WGC currently uses a Request for Proposal (RFP) process for forecasting the capacity release and opportunity sales revenue target. With this process, WGC solicits bids for the underutilized capacity, and the sum of the bids is used as the capacity release/opportunity sales revenue target in the company’s reference budget.

The RFP process has not been a good indicator of future performance. The RFP process for forecasting opportunity sales does not take into consideration the many marketing options available, and has resulted in extremely low projections in each year of WGC’s current GCRM. The volume of Applicants’ opportunity sales demonstrates the need for more comprehensive forecasts of all capacity release and opportunity sales transactions, not just those captured through the RFP process.

A target based on historical revenues is an appropriate alternative to the RFP process. Since historical averages are often used for various revenue requirement components, a target developed under this method is consistent with past Commission practices. The record includes comparisons and analyses showing that historical levels of capacity release/opportunity sales

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revenues are reasonable indicators of future performance. For example, price for capacity release is largely dependent on weather, warm winters will likely bring a lower unit price but the lower unit price is offset by the increased volumes that are available for release in warm weather. Historical analysis shows that the average revenues of colder periods is virtually the same as the average revenues of warmer periods.

Using rolling four-year averages of historical capacity release/opportunity sales revenue is a reasonable basis for the capacity release/opportunity sales revenue target in both Applicants' reference budgets. First, an historical approach takes into account all market activity and behavior for complete annual cycles, as opposed to an RFP approach which represents market valuation at only one point in time, when the proposals are due. In addition, using a rolling average, as opposed to a calculated average that would not change, incorporates changes in the marketplace as they occur.

**Supplier Reliability Premiums** Supplier reliability premiums are adders that gas supply purchasers may pay for natural gas supply in order to insure the supply's reliability or swing capability. The current WGC supplier reliability premium of 2.5 percent is consistent with what is used for other LDCs and is retained in the revised mechanisms for both Applicants.

**Tolerance Band** Under the original WGC incentive GCRM, cumulative incentive proceeds must exceed an initial tolerance band threshold equal to 1.5 percent of the annual reference budget benchmark before accruing savings or losses to the sharing band. Tolerance bands allocate 100 percent of the cumulative gains or cumulative losses within the band to the ratepayers. Applicants proposed to eliminate the 1.5 percent tolerance band. The use of tolerance bands in incentive mechanisms helps alleviate shareholder risk regarding uncertainty in

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reference budget assumptions. In addition to providing such a buffer, tolerance bands provide motivation to gas supply personnel to achieve at least the level of savings contained in the tolerance band before sharing with the stockholders. The upcoming merger of gas operations of WGC and WEPCO provides more uncertainty, especially when trying to estimate a reasonable reference budget for WEPCO, a company that until now operated under a one-for-one GCRM. In light of experience gained with the WGC incentive mechanism, tolerance bands of 1.0 percent are reasonable for both Applicants.

**Sharing Band** Applicants proposed to expand the existing WGC sharing band to 5 percent for both companies. An increase in the risk and reward faced by Applicants, by increasing the sharing bands, will provide increased motivation to be more aggressive in reducing costs, thus providing real benefits to customers. Applicants' proposal to increase the sharing bands to 5 percent is reasonable. This, coupled with the 1.0 percent tolerance bands, equates to incentive caps of 6.0 percent.

**Sharing Calculation** In the current WGC incentive mechanism, the sharing calculation uses total gas costs, which includes all components of the cost of gas, not just the incentive components. This tends to inflate savings or losses. It is reasonable to compute the incentive sharing calculations using only those costs that are incentive components. This is consistent with the application of the sharing calculation for GCRM incentive mechanisms authorized for other gas utilities in Wisconsin.

**Information Filings** In docket 6650-GR-113, the final Commission order required that WGC comply with several reporting requirements regarding its incentive GCRM. Such

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reporting requirements have been useful regulatory tools when monitoring the operation of the WGC GCRM. Because the preliminary results filed with the Commission by July 1 and January 3 of consecutive years are no longer needed, it is no longer necessary for WGC to file such preliminary information. All other reporting requirements from that order remain useful. WEPCO and WGC shall both comply with those requirements.

**Duration of the GCRMs** Applicants proposed that the revised GCRMs terminate on October 31, 2003. When the original WGC GCRM was implemented in docket 6650-GR-113, it was a pilot program, and was put in place with an expiration date. The GCRM modifications proposed in this docket are enhancements, and the mechanisms are no longer regarded as pilots. A GCRM expiration date is no longer needed and will not be required of the Applicants, but Applicants should make information filings with the Commission on or before January 1, 2003, in order for the Applicants and Commission to review the mechanisms for appropriateness before October 31, 2003. If necessary, Applicants may work with Commission staff if a different filing schedule is needed.

**WEPCO's Adoption of the WGC GCRM** Applicants testified that the WEPCO incentive GCRM should be identical in both form and in the determination of monthly reference budgets to the WGC incentive GCRM in all aspects, as required by the Commission order in docket 05-GI-106. Therefore, the findings and order points related to the GCRM in the WGC order, docket 6650-GR-113, as modified in this docket, apply to both WGC and WEPCO as of the implementation date of the final decision in this docket, except for those items related to risk management.

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WEPCO currently does not have a risk management program, therefore approval for the risk management program and associated GCRM treatment does not extend to WEPCO.

Commission approval is required before WEPCO can participate in risk management activity on behalf of ratepayers.

**GCRM Principles, Docket 05-GI-106** Applicants testified that the principles enumerated in the final order in docket 05-GI-106 related to reliability, sharing of risk and reward, appropriate price signals, transitioning to workable markets, achieving the lowest reasonable cost of gas, providing detailed and timely information available to the Commission, and the minimization of retrospective reviews, are all achieved with its proposed modifications to the GCRMs. Applicants' proposal, as modified in this final decision, adheres to the principles for GCRMs, as set forth in the final order in docket 05-GI-106.

### **Combination of Gas Cost Portfolios and GCRMs/Purchased Gas Adjustment Clauses**

In moving towards ultimately combining the gas operations of both utilities, Applicants proposed to combine their gas cost portfolios in this docket. Numerous issues were not adequately addressed in the record, including implications of the common gas costs, how the financial records will reflect such combination and quantified benefits to ratepayers. The record does not support the combination of gas costs at this time.

### **Rate Design**

**WGC's Interruptible Sales Service** There were several issues in the docket related to the impact of changes in the Applicants' GCRMs on WGC's market-based interruptible sales

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service offering. WGC proposed to continue to use market-based pricing for this service, to eliminate the separate rates for its ANR and Northern Natural service territories, and to eliminate the 102.5 percent adjustment to WACOG when determining the minimum market-based price.

It is reasonable for WGC to continue to use market-based pricing for interruptible sales service. Market-based pricing for this service was approved in docket 6650-GR-114.<sup>3</sup> No party in this proceeding testified that WGC should revert to cost-based pricing for this service.

In authorizing the separate rates for the two service areas in docket 6650-GR-114, it was determined that the market for pipeline capacity release was better developed in the ANR service territory than it was in the Northern Natural service territory. These different market characteristics justified the use of separate rates for the two service areas. Nothing was adduced in the hearing on this matter to disturb this conclusion. WGC should therefore continue to develop separate interruptible sales service rates for the ANR and Northern Natural service areas.

WGC offered minimal support for its proposal to eliminate the 102.5 percent multiplier that it applies to its WACOG when determining the minimum interruptible sales service rates. Absent a reasonable basis for the revising the tariffs in this manner, it is reasonable to retain the 102.5 percent multiplier at this time.

**Charges for Lost and Unaccounted For Gas** A separate charge to recover the costs associated with lost and unaccounted for gas was established for WEPCO in docket 6630-UR-110.<sup>4</sup> This charge was revised in WEPCO's subsequent rate case.<sup>5</sup> An explicit charge for lost and unaccounted for gas has not previously been established for WGC. WGC

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<sup>3</sup> See, Findings of Fact, Conclusions of Law, and Interim Order, Docket 6650-GR-114, September 27, 1996; and Findings of Fact, Conclusions of Law, and Final Order on Rehearing, Docket 6650-GR-114, October 7, 1997.

<sup>4</sup> See, Findings of Fact, Conclusion of Law, and Final Order, Docket 6630-UR-110, March 25, 1999.

<sup>5</sup> See, Final Decision, Docket 6630-UR-111, August 30, 2000.

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recovers these costs through its PGA mechanism, just as WEPCO did prior to the establishment of its specific charge for these costs.

The record indicates that customers of both WEPCO and WGC deserve a credit to reflect a gain, rather than loss, of gas that is now occurring on both systems. It is therefore reasonable that WEPCO revise its charge for lost and unaccounted for gas to a credit, and that WGC establish a credit for lost and unaccounted for gas. The credits should reflect the fact that WEPCO is gaining gas at a rate of 0.44 percent and that WGC is gaining gas at a rate of 1.18 percent.

### **Environmental Review**

This is a Type III action under Wis. Admin. code PSC 4.10(3). No unusual circumstances suggesting the likelihood of significant environmental consequences have come to the Commission's attention. Neither an environmental impact statement under Wis. Stat. § 1.11, nor an environmental assessment is required.

### **Effective Date**

To facilitate the coordination of this final decision with the record keeping process of the Applicants, this final decision shall take effect on April 1, 2001.

### **Order**

1. This final decision shall be effective on April 1, 2001.
2. Both fixed pipeline capacity discounts and variable pipeline costs shall be treated as incentive items in the Applicants' GCRMs.

3. Incremental pipeline discounts above the previous level and discounts lost shall be shared in the same manner between shareholders and ratepayers by both Applicants.

4. On or before March 15, 2001, Applicants shall present their proposal to determine how to define variable costs in the reference budgets, and to determine what constitutes a capacity discount. Final disposition is delegated to Commission staff.

5. Applicants shall include Canadian-based supply in the gas supply segments of the incentive components of the GCRMs consistent with the Opinion section of this final decision.

6. Applicants shall modify the weighted index for establishing commodity costs in the reference budgets to reflect inclusion of Canadian supply and to reflect adjustments based on a two year average of historical purchases adjusted for anticipated supply changes approved in the annual supply plan reviews.

7. WGC shall include, in the calculation of the arbitrage cost/benefit, carrying costs, tariffed storage-injection and redelivery fuel charges, and other variable charges.

8. WGC shall use the "Dealer Commercial Paper (90 days) Rate" as published in the *Wall Street Journal* as the carrying cost of money when calculating the cost/benefit of arbitrage activity, and shall apply the specific daily-published rate to the transaction on the day the arbitrage transaction is executed.

9. WGC may retrade hedge positions in futures options prior to their expiration dates in order to capture market inefficiencies where these inefficiencies exist. WGC is further authorized to include the cost and results of the re trading in the incentive portion of the GCRM in a manner similar to the treatment already authorized for arbitrage transactions.

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10. WGC shall separately identify retrades in the monthly reports submitted to the Commission.

11. WGC shall amend its hedging program internal control procedures to include retrades and submit these revised procedures to the Commission within 30 days of the effective date of this final decision.

12. WGC's current risk management program, as modified by this final decision, is approved with the target volumes subject to risk management activity included in the annual gas supply plan approval process. This approval is effective for the duration of the GCRM approved in this docket. WGC shall continue to report results on a monthly basis.

13. Both Applicants shall use a rolling four-year average of historical capacity release/opportunity sales revenue, using the most recent gas years available, as the capacity release/opportunity sales revenue target in their reference budgets.

14. WGC and WEPCO shall both submit all information filings required in the WGC incentive order in docket 6650-GR-113, except the Applicants are no longer required to submit the preliminary information filings that were filed in July and January of consecutive years.

15. WEPCO shall submit tariff changes on or before March 15, 2001, for Commission staff approval, that incorporate the GCRM related order points in the original WGC GCRM order, docket 6650-GR-113, as modified by this final decision.

16. WGC shall submit tariff changes on or before March 15, 2001, for Commission staff approval, that incorporate the GCRM modifications in this final decision.

17. WGC and WEPCO shall make GCRM information filings in accordance with the Opinion section of this final decision.

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18. Applicants shall file appropriate support, including supplemental testimony and exhibits, to combine gas cost portfolios and GCRMs and purchased gas adjustment clauses in the proceeding in docket 05-BS-104, or submit a plan within 30 days of the effective date of this final decision for filing such information in the upcoming proceeding regarding distribution rate unification of the combined gas utilities.

19. WEPCO and WGC shall file compliance tariffs to implement credits for lost and unaccounted for gas on or before March 15, 2001. The credits shall be set at levels consistent with the findings of fact on this point and shall be effective April 1, 2001.

Dated at Madison, Wisconsin, \_\_\_\_\_

By the Commission:

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Lynda L. Dorr  
Secretary to the Commission

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See attached Notice of Appeal Rights

Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in Wis. Stat. § 227.53. The petition must be filed within 30 days after the date of mailing of this decision. That date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

Notice is further given that, if the foregoing decision is an order following a proceeding which is a contested case as defined in Wis. Stat. § 227.01(3), a person aggrieved by the order has the further right to file one petition for rehearing as provided in Wis. Stat. § 227.49. The petition must be filed within 20 days of the date of mailing of this decision.

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

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.

Revised 9/28/98

APPENDIX A  
(CONTESTED)

In order to comply with Wis. Stat. §227.47, the following parties who appeared before the agency are considered parties for purposes of review under Wis. Stat. §227.53.

Public Service Commission of Wisconsin  
*(Not a party but must be served)*  
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