

SERVICE DATE
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Public Service Commission of Wisconsin
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PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Electric Power Company for Authorization to
Implement New Electric Rates According to its 2014 Fuel Cost Plan

6630-FR-104

FINAL DECISION

This is the Final Decision concerning the application of Wisconsin Electric Power Company (WEPCO) for approval of its 2014 Fuel Cost Plan and for authority to decrease Wisconsin retail electric rates in accordance with its 2014 Fuel Cost Plan monitored fuel costs.

WEPCO's 2014 Fuel Cost Plan is approved subject to conditions. In addition, WEPCO shall refund the remaining unamortized balance of its U.S. Department of Energy (DOE) net settlement refund. The total Wisconsin retail rate decrease is \$35,711,000.

Introduction

On July 30, 2013, WEPCO filed an application under Wis. Admin. Code ch. PSC 116 for its fuel cost plan for 2014. WEPCO requested a decrease of \$30.4 million on a retail basis, or 1.0 percent under current retail revenue.

The Commission held hearings for technical issues and for public comment in Madison, Wisconsin, on November 7, 2013, before Administrative Law Judge Michael E. Newmark to consider the need for and amount of any 2014 rate decrease related to fuel costs.

The Commission considered this matter at its open meeting of November 27, 2013. The parties, for purposes of review under Wis. Stat. §§ 227.47 and 227.53, are listed in Appendix A.

Findings of Fact

1. It is reasonable to forecast and decrease WEPCO's 2014 fuel costs by \$35,383,000 on a retail basis.
2. It is reasonable to set a 2014 fuel plan-year cost of monitored fuel of \$938,962,735, or \$31.93 per megawatt-hour (MWh), as shown in Appendix C.
3. It is reasonable to monitor all fuel costs using an annual fuel cost tolerance bandwidth of plus or minus 2.0 percent.
4. It is reasonable to forecast the fuel cost plan year natural gas prices, heating oil, and crude prices for rail transportation fuel surcharges by using the November 12, 2013, New York Mercantile Exchange (NYMEX) futures prices.
5. It is reasonable to incorporate a 2.0 percent equivalent forced outage rate (EFOR) for the Elm Road Generating Station (ERGS) units at least until the units have five years of historical actual data.
6. It is reasonable to direct WEPCO to submit information in its 2015 Fuel Cost Plan discussing causes for the higher than industry average of 6.9 percent EFORs for equivalent-sized coal units at each ERGS unit and the steps taken by WEPCO to address the problem.
7. It is reasonable to incorporate the most recent five-year average (2008-2012) EFOR for the non-ERGS, WEPCO-owned coal units.
8. It is reasonable to accept and incorporate into WEPCO's 2014 Fuel Cost Plan Commission staff's uncontested fuel adjustments, as adjusted by the November 12, 2013, NYMEX futures prices.

9. It is reasonable to waive Order Point 34 in the Final Decision in docket 5-UR-106 during 2014 for an ERGS unit while that unit is test-burning Powder River Basin (PRB) coal.

10. It is reasonable for WEPCO to refund \$327,315 to its Wisconsin retail customers, which is the remaining unamortized balance of its DOE net settlement refund related to the federal government's failure to take spent nuclear fuel at the Point Beach Nuclear Power Plant.

11. It is reasonable to approve rate changes for electric service for the 2014 fuel cost plan year and the refund of the DOE net settlement as shown in Appendix B.

12. It is reasonable to allocate the decreases in fuel cost approved by the Commission based on energy usage.

Conclusions of Law

1. WEPCO is a public utility as defined in Wis. Stat. § 196.01(5)(a) and is operating as an electric, steam, and natural gas utility.

2. The Commission has authority under Wis. Stat. §§ 196.02, 196.03, 196.20, 196.37, 196.39, and 196.395, and Wis. Admin. Code ch. PSC 116 to review WEPCO's Fuel Cost Plan and to modify electric rates if appropriate.

Opinion

Fuel Costs

The Commission finds that a reasonable 2014 fuel cost plan year level of monitored fuel costs is \$938,962,735, which reflects the costs of generation and purchased energy, minus revenues from opportunity sales of energy and capacity. The fuel cost plan year monitored fuel cost divided by the authorized level of native requirements of 29,409,947 MWh results in an average net monitored fuel cost per MWh of \$31.93.

The fuel cost data in Appendix C shall be used for monitoring WEPCO's 2014 fuel costs.

Equivalent Forced Outage Rate for the Elm Road Generating Station Units

The estimated EFOR for each power plant unit is an important input into PROMOD (an economic dispatch model used to forecast fuel costs) to develop forecasted fuel costs.

WEPCO testified that it is appropriate to use its actual EFORs for the ERGS units and to use a national average EFOR for coal units the approximate size of the ERGS units (6.94 percent) for the years prior to the ERGS units being operational to reach a five-year average.

Commission staff testified that there is not enough representative ERGS operational history to use a historical EFOR average for either of the ERGS units. The Commission has authorized a 2.0 percent EFOR for ERGS in recent WEPCO rate cases. WEPCO argued for a 2.0 percent EFOR for the ERGS units in its Certificate of Public Convenience and Necessity (CPCN) in docket 5-CE-130 as opposed to a national average of 6.9 percent EFOR for equivalent sized coal units.

The Commission finds it reasonable to use the 2.0 percent EFOR for the ERGS units at least until the units have had five years of historical actual EFORs because that is what WEPCO promised the ratepayers in its CPCN application. Additionally, use of this EFOR will incent WEPCO to improve the operation of the ERGS coal units.

Commissioner Nowak dissents and would have used the industry average for the entire five-year period.

The Commission recognizes that the EFORs for both ERGS units have been substantially higher than 2.0 percent, or even the 6.94 percent national average. The Commission seeks a full examination of why the EFORs at the ERGS units have been exceeding the national average.

The Commission directs WEPCO to submit information in its 2015 Fuel Cost Plan discussing causes for the high EFORs at each ERGS unit and the steps taken by WEPCO to address the problem.

EFORs for Non-ERGS WEPCO-Owned Coal Units

WEPCO testified that the Commission has a practice of using the most recent five-year historical average for estimating future EFORs and that doing so prevents “gaming” that could occur if some arbitrary five-year period is used. WEPCO filed its 2014 Fuel Cost Plan using the 2008-2012 five-year historical averages for its non-ERGS coal units. Commission staff testified that the 2012 actual EFORs for the non-ERGS coal units were quite high and proposed that the 2007-2011 five-year averages be used for those coal units.

Unlike for the ERGS coal units, the Commission has five years of current data for the non-ERGS units. The most recent actual unit performance is a better and more objective measure for forecasting performance in 2014. The Commission finds it reasonable to use the 2008-2012 five-year averages for WEPCO’s non-ERGS coal units.

Commissioner Callisto dissents and would have used the 2007-2011 time period, as WEPCO did not explain why the 2012 EFORs were so high.

Commission Staff’s Proposed Adjustment to the NYMEX Futures

The Commission has historically used unadjusted NYMEX futures prices to forecast fuel commodity costs that are not established by contract for a future test year. These futures prices have been considered a proxy for the actual prices that will be paid in the future for these commodities.

Commission staff proposed to adjust fuel costs based on adjusting commodity prices by an average historical ratio of settlement to futures prices. Data for the last six years shows that, on average, settlement prices were 15.5 percent lower than the mid-November futures price for that time period. In some years, this has been a contributing cause to fuel over-collections for WEPCO. While some of these over-collections are refunded to ratepayers, WEPCO keeps any over-collections within the 2.0 percent fuel tolerance band, just as it must absorb any fuel cost under-collections within this band. Commission staff's proposed adjustment is premised upon an assumption that there are risk premiums built into the NYMEX futures prices and that the relationship of futures prices to settlement prices over a recent set of years proves the existence of a risk premium.

The Commission is not satisfied that there is enough evidence in the record to support the premise that the NYMEX futures market reflects a built-in risk premium which ensures that the futures price will be reliably higher than the settlement price. Futures prices have been both higher and lower than future spot prices at various times over the last several years. The relatively recent differences between futures prices and spot settlement prices do not guarantee future results.

While the Commission applauds Commission staff for attempting to fashion an adjustment that takes into account more recent changes in the natural gas market that have resulted in lower natural gas prices, the Commission believes that NYMEX futures prices are being used by sophisticated parties on all sides of gas transactions and remain the most reliable predictor of future spot prices currently available. Commission staff may continue to monitor the relationship between NYMEX future prices to settlement prices, but the Commission is not

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prepared at this time to further evaluate adjustments, modifications, or different methodologies that could be used to forecast commodity costs.

The Commission therefore determines that NYMEX futures prices, unadjusted for the recent relationship of futures prices to settlement prices, should be used to forecast fuel commodity costs not covered by contract. The Commission determines that the estimated spot natural gas, heating oil, and crude oil prices based on 2014 NYMEX futures prices from November 12, 2013, as shown in Commission staff's fuel cost update delayed exhibit, are reasonable.

Uncontested Fuel Adjustments

The Commission finds it reasonable to accept and incorporate Commission staff's uncontested fuel adjustments, as adjusted by the November 12, 2013, NYMEX future prices, into the 2014 Fuel Cost Plan.

PROMOD Modeling Assumptions for ERGS

In Order Point 34 from the Final Decision in docket 5-UR-106 ([PSC REF#: 178105](#)), the Commission determined that it is appropriate for the 2013 test year, and prospectively, to model WEPCO's ERGS units as economic in the Midcontinent Independent System Operator, Inc., energy market during the non-summer months of the test year.

WEPCO testified that during the time in which it is test burning PRB coal at an ERGS unit, it is appropriate to model that unit as must-run rather than economic. Commission staff did not oppose WEPCO's request for waiver from the Order Point during 2014. The Commission finds it reasonable to waive Order Point 34 during 2014 for an ERGS unit while that unit is test-burning PRB coal.

DOE Litigation Fees

In this proceeding, the Commission addressed the recovery of WEPCO's incremental legal fees associated with a DOE net settlement refund related to WEPCO's claim for partial breach of contract for failure to take spent nuclear fuel at the Point Beach Nuclear Power Plant. The Final Decision in WEPCO's last fuel case, docket 6630-FR-103 ([PSC REF#: 157900](#)), dated January 5, 2012, authorized no change in 2012 rates as a result of offsetting the forecasted 2012 fuel increase of \$26.2 million on a Wisconsin retail basis against the DOE net settlement refund of approximately the same amount. The Commission ordered WEPCO to track the amount of actual DOE settlement refund returned to Wisconsin retail ratepayers and to defer any material over- or under-collections from ratepayers to a future rate proceeding. The Commission also found it appropriate to defer the determination of the appropriate level of external incremental legal fees related to the settlement to a future rate proceeding.

WEPCO has refunded a net amount of \$26.2 million to Wisconsin retail ratepayers, which is the Wisconsin retail portion of the \$45.5 million (total company) settlement less WEPCO's estimate of its associated incremental external legal fees of \$13.6 million (total company) per the Commission's Final Decision in docket 6630-FR-103 for the 2012 test year.

In this proceeding, WEPCO provided Commission staff with a spreadsheet showing the unamortized balance, as of September 2013, that has not been returned to ratepayers is \$327,315 on a Wisconsin retail basis. That amount includes the interest earned on the net deferral in 2011 and 2012, and it includes the effect of writing off \$90,000 of associated legal fees consistent with the Commission's Final Decision in docket 5-UR-106. It is uncontested that this amount should

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be returned to ratepayers, and a refund shall be reflected in the new rates resulting from this Final Decision.

The legal fee issue was partially addressed in the Commission's Final Decision in docket 5-UR-106 ([PSC REF#: 178105](#)), dated December 21, 2012, for the 2013 test year. In that proceeding, the Commission determined that \$90,000 of the \$13.6 million WEPCO estimates as its incremental external legal fees should be disallowed from future rates because the costs were either unrelated to the DOE litigation or were otherwise deemed to be not recoverable. The Commission also directed Commission staff to continue reviewing the deferred litigation expenses and address this issue in the next fuel proceeding.

In this proceeding, the Citizens Utility Board (CUB) compared the settlement WEPCO received from the DOE to the settlement received by Xcel Energy, along with the respective legal fees of each for achieving such settlement. CUB noted that WEPCO spent \$13.6 million to achieve a settlement of \$45.5 million while Xcel Energy spent \$8.5 million to achieve a settlement of \$182 million. CUB's position was that the Commission should direct WEPCO to refund \$5.1 million of the \$13.6 million it recovered from ratepayers because WEPCO should not be allowed to recover more than Xcel Energy spent to recover a much larger settlement.

The Commission determines there is not enough evidence in this record to reduce the amount of legal fees. It is difficult to determine the reasonableness of legal expenses in one case by comparing them to legal expenses from another case. Although the Xcel Energy case and the WEPCO case had several similarities, they also had several differences that would make a fee reduction problematic.

In this proceeding, Commission staff also noted that approximately \$2 million of the \$13.6 million in legal fees WEPCO recovered from its ratepayers might be considered to be retroactive because WEPCO did not receive Commission authorization to defer the legal fees associated with the DOE settlement until 2005. WEPCO began deferring these legal fees in 2001. The Commission finds that the \$2 million was adequately deferred and that allowing recovery of this portion of WEPCO's legal costs is consistent with past Commission decisions regarding litigation expenses incurred to recover damages on behalf of ratepayers.

Revenue Allocation and Rate Design

Both WEPCO and Commission staff proposed that the decrease in fuel costs from the 2013 fuel cost plan be allocated to the rate classes based on both on-peak and off-peak energy usage adjusted for losses. Changes in fuel costs are typically allocated based on energy. The only difference between WEPCO's proposed revenue allocation and Commission staff's proposal is in the forecasted level of fuel costs for the test year.

WEPCO and Commission staff also proposed rate designs that reflect time-differentiated or flat per kilowatt-hour fuel surcharge credits. The on-peak and off-peak costs allocated to each customer class divided by the corresponding forecasted 2013 test-year energy usage result in differing on-peak, off-peak, or flat fuel surcharge credits. These credits apply to all of the customer's energy usage. The only difference between WEPCO's rate design and the Commission staff's rate design is the effect of using a different forecasted fuel cost for the 2014 test year. Commission finds the Commission staff's revenue allocation and rate design proposals, adjusted for the final fuel cost increase are reasonable. The authorized fuel cost decreases, by rate class, and the fuel surcharges are shown in Appendix B.

Order

1. The authorized rate decreases shall take effect January 1, 2014. WEPCO shall file these rates with the Commission and place them in all of its offices and pay stations prior to that date.

2. WEPCO shall revise its existing rates for electric utility service, substituting the rate changes as discussed in the Opinion section and as shown in Appendix B of this Final Decision. These changes shall be in effect until the Commission issues an order establishing new rates and new tariff provisions.

3. WEPCO shall prepare bill messages that properly identify the rates authorized in this Final Decision. WEPCO shall distribute the bill messages to customers no later than the first billing containing these rates. WEPCO shall file copies of these bill messages with the Commission before it distributes the messages to customers.

4. The electric fuel costs in Appendix C shall be used for monitoring of WEPCO's 2014 fuel costs pursuant to Wis. Admin. Code § PSC 116.06(3).

5. All 2014 fuel costs shall be monitored using a plus or minus 2.0 percent tolerance band.

6. WEPCO shall submit information in its 2015 Fuel Cost Plan discussing causes for the high EFORs at each ERGS unit and the steps taken by WEPCO to address the problem.

7. The Commission finds it reasonable to waive Order Point 34 from the Final Decision in docket 5-UR-106 during 2014 for an ERGS unit while that unit is test-burning PRB coal.

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8. WEPCO shall refund \$327,315 to its Wisconsin retail customers, which is the remaining unamortized balance of its DOE net settlement refund related to the federal government's failure to take spent nuclear fuel at the Point Beach Nuclear Power Plant. Jurisdiction is retained.

Dated at Madison, Wisconsin, this 20th day of December, 2013.

By the Commission:

A handwritten signature in black ink that reads "Sandra J. Paske". The signature is written in a cursive style with a long, sweeping underline.

Sandra J. Paske
Secretary to the Commission

SJP:MAR:cmk:DL:00894455

See attached Notice of Rights

PUBLIC SERVICE COMMISSION OF WISCONSIN
610 North Whitney Way
P.O. Box 7854
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**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.¹ 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

¹ See *State v. Currier*, 2006 WI App 12, 288 Wis. 2d 693, 709 N.W.2d 520.

APPENDIX A

PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Electric Power Company for Authorization to
Implement New Electric Rates According to its 2014 Fuel Cost Plan

6630-FR-104

SERVICE LIST
(October 25, 2013)

WISCONSIN ELECTRIC POWER COMPANY

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PUBLIC SERVICE COMMISSION OF WISCONSIN

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(Please file documents using the Electronic Regulatory Filing (ERF) system which may be
accessed through the PS website: <https://psc.wi.gov>.)

Docket 6630-FR-104

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Wisconsin Electric Power Company
Electric Revenue Summary
for Test Year ending December 31, 2014

Rate Schedules and Class Descriptions	Revenue in 2014 from Base Rates Authorized in 05-UR-106	Revenue in 2014 After Authorized Fuel Cost Adjustment	Authorized Change in Revenue	% Change
Rg1	\$ 1,142,783,993	\$ 1,131,643,782	\$ (11,140,211)	-1.0%
Fg1	28,836,529	28,541,986	(294,543)	-1.0%
Rg2 & Rg3	43,296,418	42,802,055	(494,363)	-1.1%
Total Residential & Farm	\$ 1,214,916,940	\$ 1,202,987,822	\$ (11,929,118)	-1.0%
Cg1	\$ 245,359,060	\$ 242,865,904	\$ (2,493,156)	-1.0%
Cg2	200,022,495	197,684,139	(2,338,356)	-1.2%
Cg6	12,640,380	12,496,898	(143,482)	-1.1%
Cg3	589,468,502	581,403,366	(8,065,136)	-1.4%
Cg3A	1,526,891	1,505,451	(21,440)	-1.4%
Cg3C	5,121,952	5,045,084	(76,868)	-1.5%
Cg3S	557,547	549,822	(7,725)	-1.4%
TSS	717,959	710,432	(7,527)	-1.0%
Total General Secondary	\$ 1,055,414,786	\$ 1,042,261,096	\$ (13,153,690)	-1.2%
Cp1 Low	\$ 26,116,887	\$ 25,716,984	\$ (399,903)	-1.5%
Cp1 Medium	489,929,615	482,197,140	(7,732,475)	-1.6%
Cp1 High	5,660,352	5,573,726	(86,626)	-1.5%
Cp3 Medium	51,194,964	50,384,719	(810,245)	-1.6%
Cp3A Low	716,633	705,591	(11,042)	-1.5%
Cp3A Medium	8,006,873	7,880,672	(126,201)	-1.6%
Cp3S Medium	6,260,519	6,162,010	(98,509)	-1.6%
CpFN Medium	28,528,467	28,008,238	(520,229)	-1.8%
CpFN High	30,154,496	29,563,790	(590,706)	-2.0%
Total General Primary	\$ 646,568,806	\$ 636,192,870	\$ (10,375,936)	-1.6%
Street Lighting & Other:				
All, Ms1, Ms2, Ms3, Ms4, Mg1	\$ 17,335,366	\$ 17,223,671	\$ (111,695)	-0.6%
G11 Area Lighting	6,712,830	6,672,464	(40,366)	-0.6%
Cg6 & St1 Lighting	6,178,221	6,078,193	(100,028)	-1.6%
Total Lighting & Other	\$ 30,226,417	\$ 29,974,328	\$ (252,089)	-0.8%
CST High *	\$ 3,421,992	\$ 3,421,992		
RTMP *	4,814,504	4,814,504		
Total Wisconsin Retail	\$ 2,955,363,445	\$ 2,919,652,612	\$ (35,710,833)	-1.2%

* -- Not subject to fuel cost adjustment.

Authorized Cost of Fuel Adjustment

Rate Schedules	Energy Surcharge Credits		
	Surcharge per all kWh	Surcharge per On-Peak kWh	Surcharge per Off-Peak kWh
Rg1, Fg1, Cg1, TSS, & TE1	(\$0.00149)	--	--
Rg2, Rg3, Cg6, & St1	--	(\$0.00178)	(\$0.00132)
Cg2	--	(\$0.00178)	(\$0.00132)
Cg3, Cg3C, & Cg3S	--	(\$0.00176)	(\$0.00131)
Cp1, Cp3, Cp3S, CpFn, & Cp4	--	(\$0.00169)	(\$0.00127)
Ms1-4, Gl, Al, & Mg1 (metered only)	(\$0.00137)	--	--

For the Renewable Energy Riders:

ERER 1.

ERER 3. Customers who are 100% renewable - No adjustment for cost of fuel.

ERER 4

Customers who are 50% renewable - 50% x (cost of fuel adjustment factor(s) applicable to rate schedule customer is served under).

Customers who are 25% renewable - 75% x (cost of fuel adjustment factor(s) applicable to rate schedule customer is served under).

ERER 2

kilowatt-hours in excess of nominated block - Cost of fuel adjustment factor(s) applicable to rate schedule customer is served under.

CgS2, CgS4, CgS6, CgS7, CgS8 (when a net seller to or a net purchaser from the Company).

Footnotes:

For Rg3 the on-peak surcharge is applicable for the mid-peak period also.

kWh = kilowatt-hours

**Wisconsin Electric Power Company
2014 Fuel Cost Plan
Electric Fuel Costs per Wis. Admin. Code § PSC 116.02**

	<u>Monitored Fuel Costs</u>	<u>Net kWh Produced</u>	<u>Fuel Cost per Net kWh Produced</u>	<u>Cumulative Cost per kWh</u>
January	\$ 76,458,074	2,549,889,000	\$ 0.02998	\$ 0.02998
February	69,236,818	2,293,280,000	0.03019	0.03008
March	70,410,331	2,424,990,000	0.02904	0.02973
April	64,351,061	2,226,355,000	0.02890	0.02954
May	74,939,983	2,303,068,000	0.03254	0.03012
June	85,390,463	2,551,143,000	0.03347	0.03072
July	102,423,745	2,792,605,000	0.03668	0.03169
August	101,497,546	2,793,215,000	0.03634	0.03234
September	83,978,610	2,389,929,000	0.03514	0.03264
October	68,513,950	2,361,665,000	0.02901	0.03229
November	65,136,695	2,236,840,000	0.02912	0.03203
December	<u>76,625,461</u>	<u>2,486,968,000</u>	<u>0.03081</u>	<u>0.03193</u>
Total	<u>\$ 938,962,735</u>	<u>29,409,947,000</u>	<u>\$ 0.03193</u>	<u>\$ 0.03193</u>