BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

JOINT APPLICATION OF WISCONSIN ELECTRIC POWER COMPANY AND WISCONSIN GAS LLC FOR AUTHORITY TO ADJUST ELECTRIC NATURAL GAS, AND STEAM RATES

DOCKET 5-UR-110

POST-HEARING BRIEF OF CLEAN WISCONSIN

I. INTRODUCTION

In this proceeding, Wisconsin Electric Power Company ("WEPCO") is seeking a total retail electric rate increase of $260.5 million (8.4%) for the year 2023. Direct-WEPCO/WG-Eidukas-4. WEPCO Gas has requested a $50.7 million (or 10.7%) increase, and Wisconsin Gas ("WG") a $60.1 million (8.3%) increase. Direct-WEPCO/WG-Eidukas-9. These increases translate to a residential rate increase of $6.00 per month for electricity and of $5.94 to $6.39 per month for natural gas. Ex.-WEPCO/WG-Nelson-10.

WEPCO/WG's significant rate increase request comes as many of its customers continue to struggle to make ends meet in a time of pandemic and inflation. As WEPCO customer Grace Alvarez comments:

> This ain't right. By increasing our energy bills by 8% we are victim to more suffering by decreasing our disposable income. I cannot stand by while more and more of our power is stripped away. We deserve to have stable and sustainable energy payments that meets our basic needs without gouging our wallets. There is no reason to increase our bills other than greed and profit. I am sure that the WE energies corporation is not increasing employees wages 8%, so where is this profit going to? If you want us to pay more you have to think of each individual that you will be affecting, do you even think about how

> much 8% changes our lives. Living alone my WE energies bill is $45 dollars, with this increase it becomes $48.60- that may not seem like a lot but that is a total increase of $43.20 per year. That is costing me a gallon of milk per month. I do not make enough to counteract this adjustment. Please listen to us when we scream "NO", we are begging you.

Ex.-PSC-Public Comment-Alvarez. And Geneva Davis, another Milwaukee resident and WEPCO customer, has this to say:

> I am a 71 years old female who struggle every month to make ends meet living from month to month. My retirement is only four hundreds and some dollars. Please don`t raise our bill. Rent has already went up. Thank you for listening. Ex.-PSC-Public Comment-Davis.

Wisconsin has arrived at a crisis point. Electric rates in Wisconsin are the second highest in the Midwest. Direct-CUB-Singletary-18. Electric prices alone have increased by nearly 20% just since 2015. Direct-WW-Colton-r-12. However, household incomes have not kept pace with increases in either electric or natural gas prices. *Id*. at 14. In the current rate case, the Company attributes its revenue deficiencies primarily to capital investments aimed at transitioning its generation fleet from coal to renewables and natural gas, and enhancements to distribution reliability. Direct-WEPCO/WG-Zgonc-r-7.

While Clean Wisconsin generally supports expansion of renewable resource generation and battery storage, a balance is needed between necessary capital expenditures and those which can be avoided and/or deferred by cost-effective demand-side management.

In this proceeding, intervenors have proposed a variety of methods by which WEPCO could mitigate upward rate pressure. Clean Wisconsin proposed a cost-effective energy efficiency pilot program using a Performance Incentive Mechanism (“PIM”), consistent with the Commission’s ongoing investigation regarding the potential of Performance Based Ratemaking (“PBR”) to help Wisconsin meet its policy goals in Docket 5-EI-158. Direct-CW-

Lane-35. Clean Wisconsin and CUB also proposed a reduction in the Company's return on equity ("ROE") that would result in significant customer savings. Taken together, use of a well-designed energy efficiency PIM coupled with a reasonable reduction in ROE would result in significant customer savings, while allowing WEPCO to earn on its energy efficiency investments. Direct-CUB-Singletary-r-17.

II. ENERGY EFFICIENCY INVESTMENTS SAVE CUSTOMERS MONEY

A. Increased investments in voluntary energy efficiency programs would mitigate upward rate pressure.

Energy efficiency is the least-cost option to assist customers in lowering their electricity bills. Customers who install higher efficiency measures reduce their energy consumption and thereby reduce their bills. Direct-CW-Lane-11. The levelized cost of energy efficiency is less expensive than the least expensive fossil fuel option, including natural gas. Ex.-CW-Lane-2. Wisconsin's statewide energy efficiency program, Focus on Energy, has resulted in annual verified gross electricity savings of between 442 GWh to approximately 558 GWh. Ex.-CW-Lane-11. In 2021, Focus programs showed a 2.35 benefit-cost ratio based on the Modified Total Resource Cost ("TRC") test. Ex.-CW-Lane-7. This means that for every dollar invested in energy efficiency, $2.35 of benefits are created. *Id.*

In addition to energy and bill savings, energy efficiency is a valuable utility system resource that can avoid or defer construction of expensive generation, transmission, and distribution infrastructure. Direct-CW-Lane-11. Clean Wisconsin's proposal for a four-year pilot program would, in the short term, increase rates for the average residential electric customer by 41 cents per month, in sharp contrast to WEPCO's plan to increase customer rates by $5-6 per month. And by reducing system costs over the medium to long term, the incremental energy savings from this additional funding would create a total of $205,887,731

in net benefits to the utility system over the life of the installed efficiency measures. Direct-CW-Lane-43. Furthermore, the increased funding on energy efficiency will enable more customers to participate in the Focus on Energy programs, providing them with the opportunity to mitigate this price increase by reducing monthly energy consumption. Direct-CW-Lane-42-43.

B. The 2021 Wisconsin Energy Efficiency Potential Study found substantially more cost-effective energy savings potential than can be captured under current Focus on Energy funding levels.

The 2021 Focus on Energy: Energy Efficiency Potential Study Report shows that Wisconsin could achieve much greater energy savings than it currently does. Ex.-CW-Lane-22. In fact, compared to other states, Wisconsin's energy efficiency savings as a percent of sales consistently lags behind other states in the region. Ex.-CW-Lane-21r. In the year 2020, Wisconsin's efficiency savings as a percent of sales was less than half that achieved in Minnesota, Michigan, and Illinois. Direct-CW-Lane-17. States that lead the country in efficiency efforts such as Rhode Island, Massachusetts, and Vermont achieve four times as much energy efficiency as a percent of sales compared to Wisconsin. Ex.-CW-Lane-21r.

The Cadmus Group ("Cadmus") examined four primary potential estimates along with sensitivity analyses to determine the impacts of additional program funding and other variables for several scenarios. Ex.-CW-Lane-22. Cadmus developed the Economic, Optimized, and Current Policy Potential scenarios to identify savings that could realistically be achieved. *Id.* Funding scenarios such as the +50% and +100% were sensitivities run to determine the impact of additional Focus funding. *Id.* Both the +50% and +100% funding scenarios are cost-effective; however, Clean Wisconsin's four-year pilot program proposal is based on the +50% funding scenario. Direct-CW-Lane-24. This scenario would create

464,532 megawatt-hours (MWh) in additional first-year energy savings and is cost-effective with a benefit-cost ratio of 3.02. *Id.*

III. CLEAN WISCONSIN'S PROPOSAL FOR WEPCO INVESTMENT IN VOLUNTARY ENERGY EFFICIENCY PROGRAMS

A. Clean Wisconsin proposes a gradual, cost-effective annual investment schedule over a four-year period.

Clean Wisconsin recommends three separate PIMS:

1. Low-income
2. Non-low-income residential
3. Commercial and Industrial ("C&I")

Under each of these PIMS, WEPCO could earn financial incentives for voluntary investments in energy efficiency tied to the achievement of energy savings goals. Direct-CW-Lane-38. The target PIM for earnings would be 10% of WEPCO's incremental energy efficiency funding in each sector for meeting 100% of the targeted kWh savings resulting from that funding. *Id.* The amount of earnings would increase linearly up to 125% if the company exceeds the targeted savings and declines similarly to zero incentive if no savings are achieved. *Id.* WEPCO would be expected to work closely with Focus on Energy to ensure that energy savings would occur. Specifically, WEPCO would provide the additional funds to Focus on Energy to support additional energy efficiency opportunities to customers within WEPCO's service territory. Surrebuttal-CW-Lane-3.

Based on the Cadmus potential study +50% funding scenario, Clean Wisconsin developed first-year savings potential estimates for WEPCO's electric service territory using the +50% Funding Scenario, using WEPCO Electric's sales share as a percent of the state total for each sector. Direct-CW-Lane-22.

Sector	Current Policy Potential (MWh)	+50% Funding Potential (MWh)	Incremental (MWh)
Commercial	394,452	645,128	250,676
Industrial	381,899	474,812	92,913
Residential Income-Qualified	123,523	139,925	16,402
Residential Non-Income-Qualified	166,959	271,499	104,541
Total WEPCO	**1,066,833**	**1,531,366**	**464,532**

The following table converts those first-year savings for both funding scenarios as a percentage of 2020 electric sales for WEPCO. Ex.-CW-Lane-22.

Sector	Current Policy	+50% Funding	Incremental
Commercial	1.18%	1.93%	0.75%
Industrial	1.49%	1.85%	0.36%
Residential Income-Qualified	0.37%	0.42%	0.05%
Residential Non-Income-Qualified	0.51%	0.82%	0.32%
Total WEPCO	**1.16%**	**1.66%**	**0.50%**

The following table illustrates incremental first-year savings potential and measure acquisition costs for WEPCO and statewide under the +50% funding scenario developed by Cadmus. Direct-CW-Lane-24.

Sector	Energy Savings (MWh)	Costs ($ millions)	Benefits ($ millions)	Benefit - Cost ratio
Commercial	250,676	23.7	87.6	3.70
Industrial	92,913	5.7	21.9	3.84
Residential Income-Qualified	16,402	8.0	3.8	0.47
Residential Non-Income-Qualified	104,541	13.8	41.0	2.98
Total WEPCO	**464,532**	**51.2**	**154.3**	**3.02**

As these tables illustrate, benefits outweigh costs by more than a 3-to-1 ratio at the portfolio level. Thus, if WEPCO were to invest an additional $51 million in the Focus on

Energy program, more than $150 million in benefits would be achieved. Direct-CW-Lane-24.

B. Without a Performance Incentive Mechanism, investor-owned utilities are unlikely to maximize energy efficiency potential.

It is widely understood that under traditional cost-of-service regulation, investor-owned utilities have a financial incentive to invest in capital assets and increase energy sales. Direct-CW-Lane-32. Utilities maximize their capital investments, such as constructing power plants, in order to increase rate base and thus increase profits, when the utility's rate of return is greater than the cost of borrowing. Ex.-CW-Lane-25r. WEPCO has proven itself very good at this strategy.

At the same time, utilities also have an incentive to increase electric sales between rate cases. Direct-CW-Lane-32. Once a utility's revenue requirement is approved, customer rates are established and are fixed until it files another rate case, creating a "throughput incentive" where the utility's revenue is highly dependent on the amount of electricity it sells. Ex.-CW-Lane-26r. If a utility can increase sales, it can increase profits, all else being equal. *Id.*

Energy and peak demand savings gained from energy efficiency impact utility profits by reducing sales and lessening the need for load-growth and reliability-related capital investments. In other words, utilities lose profits if they invest in energy efficiency for their customers. Direct-CW-Lane-33. This is why new regulatory tools are needed to incentivize utility investments in efficiency. PIMs are one such tool.

C. PIMs are effective at encouraging utilities to invest in energy efficiency.

PIMs offer utilities the opportunity to earn on investments in energy efficiency, thereby helping to advance state policy goals such as Governor Evers' carbon reduction goals, and utilities' own emission reduction goals. At least 35 states and Washington, D.C. have PIMs in

place to support energy efficiency and demand response. Ex.-CW-Lane-27. States with PIMs in place have invested 50% more in energy efficiency programs per capita than states with no incentive policy. Ex.-CW-Lane-28r. And according to ACEEE, the average net incremental electricity savings as a percent of retail sales for states using PIMS was 0.97% in 2016, while states without incentive policies averaged only 0.43%. Ex.-CW-Lane-29r.

Energy efficiency is a cost-effective utility system resource that saves customers money and enhances reliability. Expansion of energy efficiency resources in Wisconsin is currently constrained by the statutory funding limits in Act 141 and a utility business model that relies on capital investments and sales to realize shareholder profits. Direct-CW-Lane-44. The recent Cadmus energy efficiency potential study shows that significant energy savings are available for less cost to customers than generating, transmitting, and distributing energy. *Id.* This proceeding is an opportunity for the Commission to test a low-risk mechanism to encourage the largest electric utility in Wisconsin to invest in additional voluntary energy efficiency.

IV. APPLICANTS' PROPOSED ROEs ARE UNREASONABLE AND UNJUSTIFIED

The Commission, as the regulator of Wisconsin's monopoly utilities, must set utility returns on equity that are just and reasonable by balancing the interests of utility consumers and investors. *Federal Power Commission v. Hope Natural Gas Co.,* 320 U.S. 591 at 603 (1944). Applicants claim rate increases and high ROEs are necessary, in part, to fund and raise capital for the companies' investments in new renewable generation. *See* Ex.-WEPCO/WG-Nelson-10. As explained below, the data and expert analysis show this is a strawman argument because ROE does not impact a utilities ability to raise capital. High ROEs would do nothing to advance renewable energy generation in Wisconsin.

Instead, Applicants' proposed ROEs will only benefit current investors, at the expense of

customers, particularly those already suffering from high energy burden. The Commission's determination of Applicants' ROEs, when considering the balance between interests of current investors and consumers, can only result in ROEs much lower than Applicants' proposals. Furthermore, Clean Wisconsin's PIM proposal in this case, if implemented with a justifiable ROE, would allow Applicants the opportunity to earn higher than approved ROEs if they meet certain energy efficiency targets, which in turn helps address energy burden. This proposal presents an elegant opportunity to engage in gradualism (as advocated by CUB) while addressing the state's most pressing energy burden issues.

Applicants' proposed ROEs are 10.00% for WEPCO and 10.20% for WG. Direct-WEPCO/WG-Bulkley-7. These ROEs are unjustified by the financial data and unreasonably high considering the Commission's duty to balance the interests of customers and utility investors. The data Applicants use to support their requested ROEs is based on flawed assumptions, and their reasoning is based on irrelevant considerations. Upon examination, Applicants' requested ROEs do not stand up to critique. The Commission should reject Applicants' requested ROEs and set returns that more appropriately balance the interests of investors and customers—which in this case means lowering the ROE to achieve greater equity in favor of customer.

A. Applicants Make False Equivalence Between ROE and Cost of Equity.

The record in this case is replete with discussion distinguishing between ROE and cost of equity. *See e.g,* Direct-CUB-Kihm-5, 40-43. Despite overwhelming evidence to the contrary, Applicants continue to stand by assumptions in their ROE calculations that equate the two. In fact, "[t]he only time there is parity between ROE and cost of equity is when there is parity between the stock price [i.e. market price] and the book value." Direct-CUB-Kihm-41. As Applicants' expert witness admitted in testimony, Applicants' ROE requests were based on book

equity figures, yet investors purchase equity at market value. Bulkley, Tr. 67-383, pp.222-223. Applicants' "method is not market-based or forward-looking." Ex.-WEPCO/WG-Bulkley-22: 17-18. Unless the ROE was equal to the cost of equity in their analysis—which they were not—the analysis conducted is not valid to determine ROEs.

B. Applicants Comparisons to Other Utilities' ROEs is Irrelevant.

Applicants contend that deviating significantly below their requested ROEs would somehow violate legal standards for ratemaking because of disparity between Applicants' ROEs and other utilities' across the country. *See* Surrebuttal-WEPCO/WG-Bulkley-6. But this is an irrelevant consideration. As U.S. Supreme Court found in *Hope,* "regulators do not have an obligation to take actions to maintain utility market valuations." Rebuttal-CW-Ellis-r-68. Furthermore, this faulty consideration contributes to the historic cycle of unjustified and unreasonable rates currently entrenched in utility regulation. *See* Rebuttal-CW-Ellis-r-14-16. The Commission should take this opportunity to set ROEs more in line with investor expectations and fairer to customers.

C. Applicants' Use Invalid and Unreasonable Models and Assumptions to Calculate Their Requested ROE.

One reason Applicants' ROE requests are too high is because their expert used cost of equity in unreasonable ways to estimate the ROE. Direct-CUB-Kihm-53:2-14. These cost of equity estimates are themselves, too high. When a utility's market-to-book ("M/B") ratio is greater than 1.0, it "indicates the utility's ROE is expected to exceed its [cost of equity]." Rebuttal-CW-Ellis-r-11. In this case, "[t]he current average M/B ratios of the WEPCO and WG proxy groups are even higher, at 2.2 and 1.9 respectively." *Id*. These "authorized ROEs effectively double the value of [the] utilities' equity investments, on top of returning their cost of equity." Rebuttal-CW-Ellis-r-13. As Figure 4 in Clean Wisconsin Witness Mark Ellis' testimony

shows, “[w]hile interest rates have declined steadily since the mid-1980s, authorized ROEs have not kept pace. As a result, the ROE-Treasury spread has more than tripled, from approximately 5 2.3% in the 1980s to 7.7% over the last two years.” Rebuttal-CW-Ellis-r-14. This is problematic because, “[n]o evidence suggests that utilities’ risk profile has substantially increased over this period, so setting ROEs so much higher than utilities’ actual cost of equity unnecessarily raises rates and costs to customers.” Rebuttal-CW-Ellis-r-14. In other words, “Applicants’ ROEs are hundreds of basis points higher than the returns their investors require.” Direct-CUB-Kihm-55.

In fact, Applicants’ ability to raise capital is not associated at all with the ROEs the Commission is being asked to set. Any assertion that a higher ROE is necessary to raise capital is flat-out wrong—"[h]igher ROEs are not about creating attractive opportunities for new capital providers; they are about making the present investors wealthier through capital gains[,]” and indeed raising capital leads to “conflicting interests” between current and prospective investors. Direct-CUB-Kihm-25. As explained in detail in testimony, lower ROEs can be just as attractive for raising capital as higher ones. *See* Direct-CUB-Kihm-23. The companies’ M/B ratios could even be lower than 1.0 and still generate capital investment. *See* Direct-CUB-Kihm-17. There is simply no reasonable fear that lowering Applicants’ ROE will dissuade investment. In an examination of recent utility rate cases, Clean Wisconsin Witness Mark Ellis found many cases where the authorized ROE was 9% or less and all of the equity ratios were below the 53% proposed by both WEPCO and WG. Despite this, “all of the companies nonetheless also have comparable or better credit ratings, maintaining their ability to attract capital.” Rebuttal-CW-Ellis-r-21.

Here, the current authorized ROEs for WEPCO and WG far exceed their actual cost of equity. This gives the Commission ample room to reduce WEPCO’s and WG’s ROEs without

adversely affecting their ability to raise equity. And the benefits to customers are clear—"every 1% reduction in ROE reduces total customer costs by 1.1%-2.1%, even after accounting for the 1.7%-11 2.5% increase in equity ratio needed to maintain [the companies'] target CFO/debt ratio." Rebuttal-CW-Ellis-r-19.

D. Applicants' CAPM Analysis is Unreasonable.

Applicants use unjustified inputs in their CAPM analysis that render their proposed ROEs unreasonable. The beta used by both Applicant Witness Ann Bulkley and CUB Witness Dr. Steve Kihm are conservative and lack any justification to be so. Furthermore, the market risk premium ("MRP") used by Applicants and CUB are unreasonably high. These flaws, compounded by others, lead to unjustified ROEs which must therefore be dismissed.

The betas used by both Ms. Bulkley and Dr. Steve Kihm include inappropriate assumptions and are too high. Dr. Kihm does not appear to assess Ms. Bulkley's beta estimates, rather he simply assumes a "shortcut" beta of 0.75, a figure he admits still "gave the utilities a significant benefit of the doubt," i.e., is likely too high. Direct-CUB-Kihm-66. Specifically, both Ms. Bulkely and Dr. Kihm erred in "Blume-adjusting" their betas. This is an inappropriate calculation because "utility betas do not demonstrate a tendency to regress toward the market average and therefore should not be Blume-adjusted." Rebuttal-CW-Ellis-r-53. Additionally, both Ms. Bulkely and Dr. Kihm relied on data that included "the anomalous early-2020 market volatility" associated with the covid-19 pandemic. In response to these flaws, Mr. Ellis explains that "[t]he elevated levels of the betas used by both Dr. Kihm and Ms. Bulkley are artifacts of arbitrary choices of calculation period and inappropriate application of the Blume adjustment; there is no reason to believe they reflect investors' current long-term expectations." *Id*. Instead, the Commission should rely on Mr. Ellis' more robust beta estimate based on two utility proxy

groups. *See* Rebuttal-CW-Ellis-r-53-54. As he explains, "current average values of approximately 0.45 for both proxy groups… strike an appropriate balance between the long-term historical average of approximately 0.5 and current subdued investor perceptions of risk… or approximately 0.3" Rebuttal-CW-Ellis-r-54.

The MRPs used by both Ms. Bulkely and Dr. Kihm are also unreasonably conservative and also contribute to inflated ROEs. For her part, Ms. Bulkley estimates the MRP to range from 10.65% to 11.86%. Dr. Kihm uses an MRP estimate of 5.7%. Direct-CUB-Kihm-55. While both of these estimates are forward-looking, "long-term forecasts should always be compared to and balanced against long-term historical trends." Rebuttal-Clean Wisconsin-Ellis-r-61. To account for this, Mr. Ellis provides an MRP estimate that averaged a forward-looking method and an historical one. The average of his historical MRP (4.80%) and forward-looking MRP (3.16%) is 3.98%. Rebuttal-Clean Wisconsin-Ellis-r-66. Mr. Ellis' method is more grounded in data, provides a more accurate estimate, and should be the MRP estimate accepted by the Commission.

E. Applicants' Criticism of Clean Wisconsin's CAPM Analysis are Flawed.

In her Surrebuttal in response to Mr. Ellis, Ms. Bulkley makes several inappropriate comparisons and therefore her critiques are unpersuasive. *See* Surrebuttal-WEPCO/WG-Bulkley-15-20. First, she is not comparing the appropriate bond rates. Ms. Bulkley compares the utility bond rate as of August 30, 2022. Surrebuttal-WEPCO/WG-Bulkley-16. The risk-free rate in Mr. Ellis' CAPM analysis is the monthly average for July 2022; the comparison should to the bond yield at the corresponding time. *See* Rebuttal-CW-Ellis-r-66.

Second, Ms. Bulkley compares Mr. Ellis' model results to Moody's Baa-rated utility bond index. Surrebuttal-WEPCO/WG-Bulkley-16. Both WEPCO, rated A2, and WG, rated A3,

are more highly rated. Direct-WEPCO/WG-Shipman-16-20. While the A-rated utility bond index is appropriate for WEPCO, WG should be compared to a value interpolated between the A- and Baa-rated indexes corresponding to A3. The Baa index is not a relevant comparison. The appropriate comparisons are not the 4.74% and 5.08% cited by Ms. Bulkley. *See* Surrebuttal-WEPCO/WG-Bulkley-16: Figure 3.

Third, and most importantly, comparing a cost of equity – an expected return on equity – estimate to a bond yield index is not an apples-to-apples comparison. Reported bond yields are yields to maturity, assuming no default risk. Default risk for bonds of the same rating of WEPCO and WG reduce their expected return by several tens of basis points. Similarly, bonds are not as liquid as stocks and attract a liquidity premium, also on the order of several tens of basis points.

There is no hard and fast rule for what the spread of equity returns over the corresponding cost of debt should be. These results are consistent with Mr. Ellis' forward-looking MRP and beta estimates, third-party forecasts for total market returns, and the widely recognized low risk profile of utilities. *See* Rebuttal-CW-Ellis-r-52.

V. THE COMMISSION SHOULD SET APPLICANTS' ROEs LOWER THAN CUB'S RECOMMENDATION

It is not surprising the Applicants would come to the Commission with excessively high requested ROEs because regulators have systematically set ROEs in excess of investors' required returns for decades. Direct-CUB-Kihm-40-43. As CUB Witness Dr. Steve Kihm puts it, in general, the "regulators' approach is imbalanced." Direct-CUB-Kihm-32. And this systemic imbalance costs consumers nationwide billions of dollars every year. Direct-CUB-Kihm-40-43. Many of these imbalances can be addressed by scrutinizing the assumptions and inputs that are being used to set ROEs. As explained above, Applicants' requested ROEs, and even CUB's proposed ROEs, do not reflect actual return requirements of investors—which are much lower;

they rely on improper assumptions that create inflated ROEs to the detriment of customers; and setting ROEs below those proposed by Ms. Bulkley and Dr. Kihm would not prevent Applicants from accessing the capital markets.

Likewise, CUB's call for "gradualism" in ROE reductions over time is unfounded and unfair to consumers. CUB provides little rationale for this approach. As Dr. Kihm notes himself, "[h]igher ROEs help investors and hurt customers. Lower ROEs hurt investors and help customers." Direct-CUB-Kihm-85. In fact, "[e]very 10 basis point reduction in ROE saves customers $1.3 million." Direct-CUB-Kihm-80. Recognizing the incongruity between Dr. Kihm's compelling testimony, yet modest ROE recommendations, Mr. Ellis notes that "[r]educing authorized ROEs to the true cost of equity represents one of the largest single customer cost reduction opportunities available to regulators[,]" and goes on to say, "[t]o delay in the name of some unfounded notion of gradualism unnecessarily harms consumers with no compensating consumer benefit." Rebuttal-CW-Ellis-r-68.

Indeed, instead of somehow moving too fast, a significant reduction in Applicants' ROEs could be leveraged to increase energy efficiency and relieve energy burden in Applicants' service territories while providing the companies an opportunity to earn additional returns tied to a PIM, like the ones discussed in detail above. If the Commission shares CUB's view that ROE decreases should be gradual, there is no better way to move in that direction than a reduction tied to PIMs and the ability for the companies to move back in the direction of their requested ROE when they meet the established incentives. As Dr. Kihm astutely points out, rewarding performance should be a key factor in determining utility ROEs, and Clean Wisconsin's proposed PIM provides just such opportunity to the Commission in this case. *See* Direct-CUB-Kihm-86.

Expert analysis and the financial literature agree, the ROEs requested by the Applicants are unjustified and unreasonably high. CUB's proposal, while an improvement over Applicants' request in form and function, still do not go far enough to correct historic deviation between actual investor requirements and authorized ROEs. Therefore, the Commission should set Applicants' ROEs drastically lower than Applicants' requests, and even lower than CUB's proposals. It is past time the Commission address this long-standing issue and bring Applicants' ROE in line with the market and to a rate that more fairly balances the interests of investors and consumers—in this case by lowering the ROE well below that requested by Applicants or proposed by CUB.

VI. CONCLUSION

For the reasons stated above, and in the record, the Commission should, with respect to voluntary energy efficiency and ROE issues:

1. Encourage WEPCO to apply for an energy efficiency pilot project using a performance incentive mechanism

2. Set ROEs lower than both Applicants requested ROEs and CUB's proposed ROEs.

Dated this 12th day of October, 2022.

Respectfully Submitted,

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