State of Wisconsin

PUBLIC SERVICE COMMISSION

1995-1997 Biennial Report

Public Service Commission of Wisconsin

Cheryl L. Parrino, Chairman
Daniel J. Eastman, Commissioner
Joseph P. Mettner, Commissioner

610 North Whitney Way
P.O. Box 7854
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The Honorable Tommy G. Thompson, Governor
The Members of the Legislature
The People of Wisconsin

Re: 1995-1997 Public Service Commission of Wisconsin's Biennial Report

I am pleased to present the 1995-1997 Biennial Report of the Public Service Commission of Wisconsin (Commission). The report has been prepared in the prescribed manner and highlights the administrative improvements, decisions, and activities of the agency over the last biennium.

The 1995-1997 biennium proved to be one of the most active and challenging periods in the Commission's history. For instance, in the telecommunications arena, the Commission aggressively initiated and implemented policies to rely upon competition rather than regulation to determine the variety, quality, and price of telecommunications services in Wisconsin. In the natural gas utility sector, the Commission's staff continued to develop a regulatory approach over the last two years that would incorporate competition to the extent it is consistent with the public interest. The goal is to remove barriers to the development of competition and to spur the development of choices for natural gas customers. The Commission has also streamlined water utility rate case processes and undertook an extensive educational program to train water utility personnel throughout the state via the use of innovative video conferencing technology.

Perhaps the area of greatest challenge has been in Wisconsin's electric utility sector. In this sector we have addressed a myriad of issues including, but not limited to, restructuring, two major merger applications, nuclear steam generation replacement, a high level of transmission line construction activity, and most importantly reliability. We intend to craft solutions that will ensure the availability of adequate, reasonably priced energy to Wisconsin's consumers and business community. Ensuring the ability of the state's electric industry to provide adequate energy reliably has been and will continue to be this Commission's top priority.

The Commission and its staff are prepared to meet the challenges posed by today's utility industries. We welcome the opportunity to create a regulatory environment that is fair, reasonable, and provides adequate consumer protection so that ratepayers benefit and the utility industry succeeds.

I welcome the opportunity to address any comments or questions you may have regarding the information contained in this report.

Sincerely,

Cheryl L. Parrino

Cheryl L. Parrino
Chairman

Public Service Commission Of Wisconsin

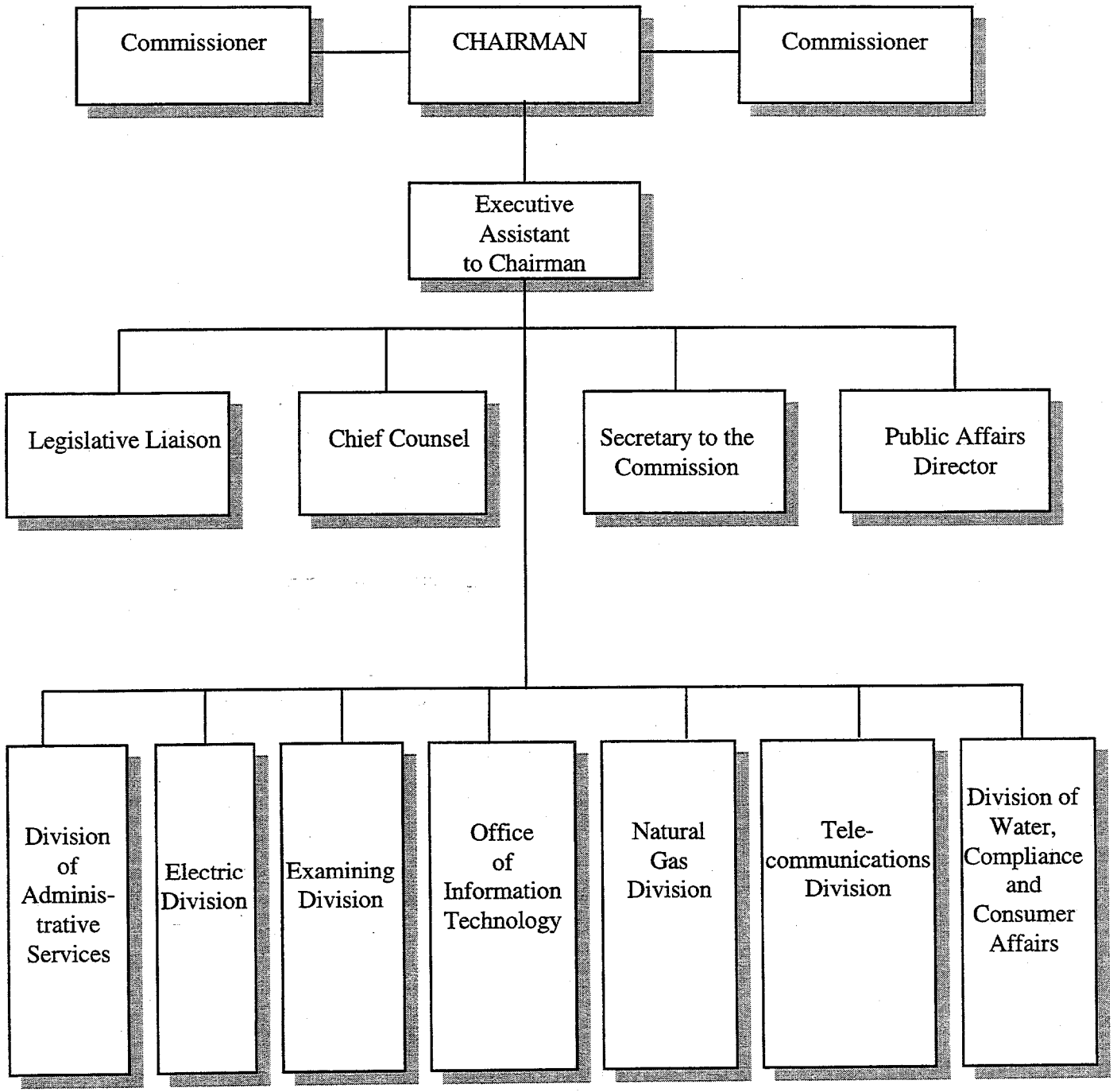
Cheryl L. Parrino
Chairman
Term Expires March 2003

Daniel J. Eastman
Commissioner
Term Expires September 2001

Joseph P. Mettner
Commissioner
Term Expires March 1999

Jacqueline K. Reynolds
Executive Assistant to the Chairman

PUBLIC SERVICE COMMISSION OF WISCONSIN



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REGULATORY MISSION

PSC Sets Utility Rates, Service

The Public Service Commission of Wisconsin (Commission) is an independent regulatory agency responsible for the regulation of 1,347 Wisconsin public utilities, including those that are municipally owned. The Commission's purpose is to ensure that, in the absence of competition, safe, adequate, and reasonably priced service is provided to utility customers.

The Commission sets utility rates and determines levels for adequate and safe service. Other major responsibilities include the approval, rejection, or modification of the utilities' major construction applications (such as power plants and transmission lines), and the approval of utility stock issuance and bond sales. The Commission staff, under the direction of the Commissioners, also conducts special programs such as research on the cost of providing various utility services.

The Commission, which receives its authority and responsibilities from the State Legislature, enjoys a national reputation for its innovative and forward-looking approach to the field of utility regulation.

Strategic Business Plan

The Commission's 1995-1999 Strategic Business Plan stated that, "The agency will optimize its human resources and technological potential in light of changing regulatory roles." To implement this strategy the PSC periodically assesses its customer needs, its internal needs and its regulatory role, and takes the necessary steps to match customer and internal needs with personnel and technical capabilities. Agency regulatory priorities are reviewed as well on a quarterly basis during a regularly scheduled Commission open meeting to ensure human resources are closely matched with the agency's top priorities and workload.

Jurisdiction Over 1,347 Utilities

As of June 1, 1997, the PSC's regulatory powers and duties extend to various aspects of the rates and services of:

94	Electric utilities (82 municipal)
13	Gas distribution utilities
1	Heating utility
46	Sewer utilities (combined with water)
85	Telecommunications utilities
582	Water utilities (493 municipally owned, 79 sanitary districts, 10 investor-owned)
526	Alternative Telecommunications Utilities (ATUs)
1,347	Total Utilities

In Wisconsin, most activities of the 28 electric cooperatives are not under the jurisdiction of the Commission. Furthermore, fuel oil, propane, coal, and gasoline are energy sources not under the Commission's jurisdiction. The rates and charges of many telecommunications providers are also no longer subject to direct Commission authority.

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ELECTRIC DIVISION

The past two years have probably been the most active in Wisconsin's electric utility industry. Issues covered have included restructuring the industry, two major merger applications, nuclear steam generator replacement, a high level of transmission line construction activity, a competitive bidding process for new generation of electricity, reliability, several large electric rate cases, and the Advance Plan. Managing such a high caseload has been a challenge not only to the Commission but to utilities, intervenors, and the public as well. Needless to say, it has been a very interesting time for this industry.

Electric Utility Restructuring

In February 1996, the Public Service Commission of Wisconsin (Commission) submitted a report to the Legislature on its intended policy direction for restructuring the state's electric utility industry. The report was the culmination of over a year's effort that included formation of an Advisory Committee, issuance of the Commission's Environmental Impact Statement, and a dozen public hearings.

A key part of the report was a 32-Step Workplan and timeline designed to accomplish the Commission's objectives of implementing competition into the utility structure whenever it is in the public interest. The Workplan shows an end-state that includes the possibility of retail competition in Wisconsin by the year 2001. However, prerequisites must be met before the Commission decides whether retail competition in the electric industry should be implemented. These prerequisites include successful completion of all steps of the Workplan and Legislative approval. Other steps of the Workplan include, but are not limited to, analysis of market power issues, assuring that customer service quality would remain the same or improve, and protection of customers and the environment in a competitive utility structure.

Under the Commission's Workplan, the utility's operations would be separated into regulated and unregulated operations. The transmission and distribution lines functions would remain regulated, while generation and energy services operations would be largely unregulated.

Soon after the Commission's report was prepared, six dockets were opened related to the first 12 steps of the Workplan. These dockets are primarily aimed at consumer and environmental protection and streamlining certain regulatory activities such as the Advance Plan process. One of the six dockets has been completed while others are still in progress. The Commission's Internet site describes each of the steps in the Workplan and provides accompanying status reports. These reports are also available through conventional means.

One of the active restructuring dockets involves the creation of Public Benefits Advisory Councils. The objective of this docket is to develop mechanisms that will serve to protect low-income customers and promote energy efficiency and renewable energy resources. Following extensive public meetings, the Commission, in March 1997, made decisions intended to meet the stated objectives. The Commission's decision would create two councils; one for low-income matters, the other for energy issues. Each would be funded through charges to gas and electric customers. The Commission believes that under such a structure, low-income services will have adequate assurance of being maintained in a competitive electricity market. Additionally, with

sufficient funding, energy efficiency programs will continue during the transition to a fully competitive energy services market. It is anticipated that in late 1997 the Commission's recommendations on these issues will be submitted to the Legislature for its consideration.

In February 1997, the Commission asked interested parties for their comments on the progress and content of the Workplan. It is expected that at the end of October 1997 the Commission will use these comments as a means to determine whether the Workplan is, in its current form, still in the public interest. Based on its own interpretation of events occurring over the last year, nationally and at the state level, the Commission could decide to continue, modify, or reject the Workplan.

Reliability Concerns

In early 1997, it became apparent that Wisconsin and other portions of the Upper Midwest were faced with a possible electricity shortage during the spring and summer. The reason for the shortage in Wisconsin was largely attributed to the unexpected unavailability of several large nuclear power plants in this state and in Illinois. The loss of these production facilities was compounded by the low ability to obtain electricity over the transmission system.

Closer scrutiny of nuclear operations by the Nuclear Regulatory Commission resulted in two nuclear units of about 500 megawatts (MW) each located at Point Beach to remain out of service. In addition, unexpected additional maintenance of the steam generator at the 500 MW nuclear facility at Kewaunee forced that unit to extend its outage to accommodate the repairs. The Kewaunee plant returned to service in early June 1997. As these units were brought back into service, the energy situation in the state was greatly improved.

As a precautionary measure to possible electricity shortages, the Commission and the utilities have put forth a concerted effort to decrease the chances of shortages and inform customers of the situation. An informed public, use of innovative measures such as temporary tariff offerings that would increase the amount of interruptible load, and increased conservation awareness are among the many tools used to address future reliability concerns. The Commission is evaluating the conditions which have made the state vulnerable to this circumstance and is taking action to prevent it from occurring again.

Rate Cases

In addition to processing the rate change applications for 30 municipal and small investor-owned electric utilities, the Commission also issued orders related to rate filings for each of the state's four largest electric utilities. As a result of these latter rate reviews, each of the large utilities have received decreases to their rates. The range of the decreases for that period were from 1½ percent to 8 percent. All of the electric utilities, large and small, are closely scrutinizing their costs in anticipation of increased competition in the industry.

The owners of the state's nuclear power plants at Kewaunee (Wisconsin Public Service Corporation, Wisconsin Power and Light Company, and Madison Gas and Electric Company) and Point Beach (Wisconsin Electric Power Company) also filed requests for rate relief for costs associated with the extended outages at these power plants. In response, the Commission granted the owners of the Kewaunee facility a surcharge in their rates during the time of the outage. In the case of

Point Beach, the Commission approved an interim surcharge but made it subject to refund pending completion of a hearing on issues including whether Wisconsin Electric Power Company managed the power plant prudently.

Rate Case Streamlining

The Electric Division, in concert with the Division of Water, Compliance and Consumer Affairs (DWCCA) has implemented an expedited rate case process for municipal electric utilities. As a result, lesser PSC staff time will be necessary on these cases as the municipality will assume greater accountability for its filings. In addition, greater latitude is being given to the municipal electric utilities to implement a rate design structure that responds to increased competition in the industry.

Electric Utility Merger Activities

During the past two years, the Commission has been considering two electric utility mergers. The first merger, announced in May 1995, involved Wisconsin Electric Power Company (WEPCO) and Northern States Power Company (NSP). WEPCO is a utility with operations located primarily in southern and eastern Wisconsin. NSP is a utility with operations located primarily in northwestern Wisconsin, Minnesota, and North and South Dakota. If approved, the name of the new company would have been the Primergy Corporation.

The Federal Energy Regulatory Commission (FERC) rejected the Primergy application in May 1997 stating that the new utility would control too many power plants and a significant portion of the transmission system in the Upper Midwest. In order for the FERC to approve the merger, the federal agency required the companies to consider divesting some of their assets. Due to the federal ruling, both WEPCO and NSP withdrew their merger application. The Wisconsin Commission did not rule on the merger as a result.

However, over an 18-month period, Commission staff did extensive legal, engineering, and economic analyses of the potential Primergy merger. Primergy would have owned about 12,500 MW of electric generating capacity controlling over 23 percent of all generation capacity among utilities directly interconnected with the new company.

The second merger, announced in November 1995, involves Wisconsin Power and Light Company (WP&L) and two Iowa utilities, Interstate Power Company and IES Industries, Inc. WP&L's operations are located primarily in south central and south western Wisconsin. If approved, the name of the new company would be the Interstate Energy Corporation (IEC). The merger application for the IEC is currently under regulatory review.

The Commission conducted technical hearings on the merits of the IEC merger in June 1997 after 12 months of extensive analyses of the possible merger. After the merger, IEC would control about 5,600 MW of generating capacity. IEC would have control over 9 percent of all generation capacity among utilities directly interconnected with the new company. Key issues were:

1. Would IEC control too much generating capacity?
2. Would IEC exert influence on the transmission system to the detriment of other utilities?
3. What projected cost savings and efficiencies are expected to result from the merger?

4. Should retail ratepayers directly benefit by some form of rate reduction?
5. Would Wisconsin lose the ability to regulate certain IEC costs?
6. Should two transmission lines be built across the Mississippi River to allow WP&L to interconnect directly with the Iowa utilities? and
7. Would the new company have an unfair advantage in retail electricity markets?

The Commission expects to rule on this case in late summer 1997.

Transmission Construction

In early 1996, the Commission made a formal commitment to make the review of applications for new electric transmission projects a top priority. This commitment was made in response to concerns about the limitations of the existing transmission network. Many of the power lines that form the basis of Wisconsin's transmission network are 50 to 60 years old and reaching the end of their useful life. In addition, load growth in several areas of the state is occurring at a faster rate than anticipated in previous planning studies. Two major transmission proposals addressing these concerns have received Commission attention in this biennium.

Baldwin-Marathon City Transmission Project. In April 1997, following the preparation of an Environmental Impact Statement (EIS) and several days of public hearings, the Commission approved construction of the Baldwin-Marathon City Transmission Project. This 140 mile-long project was jointly proposed by Northern States Power Company (NSP) and Wisconsin Public Service Corporation (WPS). The project will replace an aging 115 kilovolts (kV) line between Marathon City and Chippewa Falls with a new line capable of operation at 161 kV. Portions of the new line will be built on the existing right-of-way and other sections will be built along the newly expanded State Highway 29. Another 53 miles of the existing 115 kV line between Baldwin and Chippewa Falls will be reconductored. Construction is expected to be completed in 2001. While the primary need for the new facilities is to provide reliable service to the area by replacing the 60-year old line, the new line will also provide an additional 200-300 MW (megawatt) of transfer capability from western to eastern Wisconsin.

Chisago Project. An application for another major transmission system improvement, the Chisago Project, was filed at the Commission in late 1996 by NSP and Dairyland Power Cooperative (DPC). The project involves the construction of a new 230 kV transmission line from Chisago County, Minnesota, to the Apple River Substation near Amery, Wisconsin, and a new 52-mile long 161 kV transmission line from the Bayfront Substation in Ashland, Wisconsin, to Stone Lake, Wisconsin. Transmission improvements in the Taylors Falls area of Minnesota are also part of the project.

The primary purpose of the new facilities is to maintain adequate electric service to the northern, western, and northwestern areas of Wisconsin and the area of Taylors Falls, Minnesota. An incidental benefit of the project is the provision of additional long-term transfer capability from Minnesota to eastern Wisconsin. This project would require approval from the Rural Utilities Service (RUS) and the Minnesota Environmental Quality Board (MEQB) as well as the Commission.

Crossing the St. Croix National Scenic Riverway and avoiding major impacts to the communities of St. Croix Falls, Wisconsin,

and Taylors Falls, Minnesota, will be a major focus of the environmental review for this project. If approved, construction of the Chisago Project is expected to be completed in 2002.

Demand-Side Management

Since the last biennium, the Commission has focused its efforts on establishing a Demand-Side Management (DSM) program and policy direction that preserves DSM achievement, while making the transition from utility responsibility for DSM to the delivery of energy efficiency services by non-utility entities in the marketplace. The Commission reinforced its intent to preserve DSM achievement by establishing DSM goals in each utility's rate case that are comparable to goal levels of previous years. The Commission also determined that as the electric industry is restructured, the benefits of DSM are at risk if an effort is not made to find ways of preserving or enhancing these benefits within the new industry and regulatory structure. This issue is being addressed in the Public Benefits docket (05-BU-100) in the Commission's restructuring Workplan.

The following steps are being taken to provide DSM savings during the restructuring transition and to help create a future for DSM under a more competitive electric industry structure:

1. Utility development of comprehensive, two-year transition plans covering the provision of energy efficiency services in 1997 and 1998. The plans will describe how the utilities intend to reach a state, by the end of 1998, where all energy efficiency services are provided competitively by third-party providers.
2. Commission re-establishment of residential goals for several utilities to address the recent decrease in savings from this customer segment.
3. Development of an industrial energy efficiency program that focuses on the area of process energy.
4. Development of a comprehensive, statewide energy conservation program for residential customers.

Steam Generator Replacement

In 1996, the Commission granted Wisconsin Electric Power Company (WEPCO) authority to purchase and place in operation two new steam generators at Unit 2 of the Point Beach Nuclear Power Plant. The Commission determined that replacement of the Unit 2 steam generators was the least-cost option available when considering the total cost of the project, risks involved, and environmental factors. The Commission found that alternatives to steam generator replacement, such as conservation and combustible or noncombustible renewables, would not provide an alternative that is both feasible and cost effective. The new steam generators were necessary to meet the public's needs for power. If the steam generators were not replaced and no other action was taken, Point Beach Unit 2 would most likely have shut down in the fall of 1998. The steam generators have been replaced and Unit 2 is expected to be producing power upon final approval by the Nuclear Regulatory Commission (NRC).

Continued operation of both Unit 1 and Unit 2 required storage for spent nuclear fuel beyond that available in the spent fuel pool at the power plant. The Commission authorized the construction of an independent spent fuel storage facility consisting of two concrete pads and 12 dry casks for the purpose of storing 288 spent fuel assemblies from the Point Beach Nuclear Power Plant. Currently, there are two loaded casks at the storage

facility and two additional casks will need to be loaded prior to the scheduled Unit 1 refueling outage in the fall of 1997.

The operator of the Kewaunee Nuclear Power Plant, Wisconsin Public Service Corporation, filed an application in March 1996 for steam generator replacement. The application was filed in response to steam generator degradation that has caused a rapid increase in the rate of corrosion. New steam generators will not be available until spring 2000 and must be approved by the Commission. Several temporary repairs of the steam generators have recently been attempted. The laser welding repair technique was only partially successful. The resleeving repair technique appears to have been more successful. This repair allowed Kewaunee to come back on line in June 1997. The refueling outage had been projected to last five weeks, but because of the steam generator problems, it lasted approximately nine months.

Advance Plan 7

In 1996, the Commission approved the utilities' forecast of future energy and capacity needs. The Commission also approved the planned level of conservation, the process the utilities used to assess alternative fuels, and the resulting amount and type of capacity in the utilities' plans.

The Commission required the utilities to inventory the land available to grow biomass crops in each service territory. The utilities also identified existing coal-burning plants located in areas where there is available land capable of producing biomass. The Commission also directed the utilities to help assess the state's wind resources.

The Commission adopted six principles to maintain options and flexibility with respect to the future of Wisconsin's nuclear power plants or replacements for them. It ordered development of a definition of relicensing to guide the utilities in keeping auditable records of the costs of relicensing activities.

The Commission ordered that, in the future, any utility that contracts to purchase power from an independent power project will site and build any required transmission or gas lines serving the new power plant.

Advance Plan Streamlining

One of the major responsibilities of the Commission is to evaluate every two years the electricity needs of the state of Wisconsin. The evaluation process enables the Commission to determine and implement the most appropriate and effective energy conservation plans and/or construction of energy producing and transmitting facilities. In the past, the Commission used a 20-year scope. In mid-1997, the Commission determined it was in the best interest of the state of Wisconsin to use a 10-year scope to ensure that the current and near-term assessments closely match the resources necessary to ensure the reliability of the state's electric system. Furthermore, the process in which the Advance Plan is conducted has been updated to accommodate the needs of the involved parties.

New Generation

LS Power. In March 1995, the Commission authorized the construction of a 248 MW natural gas-fired power plant to be built by LS Power Corporation of Bozeman, Montana. This cogeneration plant will supply steam heat to the University of Wisconsin-Whitewater and a greenhouse owned by Dominion Growers, Inc., and electrical energy to Wisconsin Electric Power Company (WEPCO). At the time of writing, this plant is

expected to commence commercial operation in June 1997.

Polsky Energy. In December 1994, following an evaluation of 13 competing bids, the Commission authorized Wisconsin Public Service Corporation (WPS) to proceed to the next step of the licensing process with its proposal to build the Rhinelander Power Plant. This project was to have supplied process steam to the Rhinelander Paper Company and electricity to WPS. The Commission's order also stated that, if the Rhinelander project failed to go forward, then WPS should negotiate a purchased power contract with Polsky Energy for power from a proposal to build a new power plant in DePere, Wisconsin. In August 1995, WPS sent a letter to the Commission stating that negotiations with the Rhinelander Paper Company had failed and that it was unable to proceed with the Rhinelander project.

As a result, in early 1996 the Commission conditionally approved the purchased power contract between Polsky Energy and WPS. Subsequently, Polsky Energy filed an application for construction of a natural gas-fired power plant adjacent to the Nicolet Paper Company in DePere, Wisconsin. This plant is to supply process steam to the Nicolet Paper Company and electricity to WPS. In July 1996, Polsky Energy completed its application by filing information on an alternate site for the proposed power plant.

The Commission has issued a Draft Environmental Impact Statement (EIS) on this project. A Final EIS was issued in June 1997. Public hearings on this project were scheduled for July 1997 and an order in the proceeding is expected in October 1997. If approved and constructed, the first phase of the Polsky Energy Power Plant would be in operation as early as 1999.

Electric Rate Cases - Class A Investor-Owned Utilities

Docket	Utility	Dollars Requested	Dollars Granted	Final Order	Percent Change
6680-UR-110	WP&L	$13,439,000	$*-10,590,000	04/29/97	-2.36
6690-UR-110	WPSC	-5,000,000	**35,514,000	02/25/97	-8.1
6630-UR-109	WEPCO	77,003,000	**-7,383,000	02/17/97	-0.6
4220-UR-109	NSP	0	0	11/27/96	0.0
5820-UR-106	SWL&P	466,500	181,888	03/29/96	0.77
4220-UR-108	NSP	0	-4,800,000	12/21/95	-1.7
6630-UR-108	WEPCO	0	-33,383,000	09/12/95	-2.75
6690-UR-109	WPSC	-10,829,000	-10,919,000	12/20/94	-2.59

WP&L — Wisconsin Power and Light Company
WPSC — Wisconsin Public Service Corporation
WEPCO — Wisconsin Electric Power Company
NSP — Northern States Power Company
SWL&P — Superior, Water, Light and Power Company

* Excluding Kewaunee surcharge
** Excluding Point Beach surcharge

* * *

NATURAL GAS DIVISION

Restructuring

Docket 05-GI-106. Changes in Tariff Terms and Conditions Concerning the Purchased Gas Adjustment Clause

Background. The Commission, on its own initiative, determined that the Purchased Gas Adjustment Clause (PGA) mechanism should be reviewed for its appropriateness given the changes in the natural gas industry. The PGA is the mechanism used by utilities to collect gas costs from their customers. This docket was an outgrowth of the Commission's continuing investigation into possible reforms of its regulation of gas cost recovery by public utilities in Wisconsin.

Goals for gas cost recovery mechanisms (GCRMs) and various GCRM alternatives were discussed at informational meetings with participants in this docket during the latter part of 1995 and a consensus was reached on a list of goals for GCRMs. Commission staff testified in support of a revised list of goals at the hearing and several parties analyzed and discussed these goals on the record. The goals evolved into a set of principles that the Commission is using as a basis for review and approval of GCRM implementation filings.

The Commission found that the following principles should be used as an overall guide for the development, Commission approval, and use of GCRMs by the Wisconsin gas utilities.

Principles:

1. Reliability of service must be maintained under any acceptable GCRM.
2. Sharing of risk and reward should be appropriately balanced between shareholders and ratepayers.
3. The operation of GCRMs should provide appropriate price signals.
4. The operation of GCRMs should not unduly hinder the transition to workable markets.
5. The operation of GCRMs should be designed to achieve the lowest reasonable cost of gas to its customers.
6. The Commission must have detailed and timely information in order to carry out its regulatory responsibilities.
7. The Commission will strive towards minimization of retrospective reviews.

Acceptable GCRMs. The Commission found that, depending on the specific circumstance, there is a need for the use of several types of GCRMs:

Status Quo One-for-One Recovery Mechanisms. The Commission found that local distribution companies (LDCs) with annual sales less than those of Superior Water, Light, and Power Company should continue to use the current one-for-one PGA. LDCs of this size are constrained by the size of their staff, contractual arrangements with their pipelines and suppliers, location of their service territories, and volume of sales, all in a way that minimizes gas cost management opportunities. For these entities, the historical justification for one-for-one gas cost recovery is still valid. Such utilities may collect from customers their actual cost of gas, no more, no less.

Alternatives to the Status Quo. The Commission found that LDCs whose 1995 annual sales were equal to or greater than those of Superior Water, Light, and Power Company should no longer be allowed to use

the traditional one-for-one recovery PGA. LDCs of this size have the ability to significantly affect their cost of gas because of a multitude of factors including the size and expertise of their respective staffs, the geographical location of their service territories, access to interstate gas transmission systems, characteristics of their customers, access to gas storage facilities, load profiles, and contractual arrangements with their suppliers or customers. There was, however, little uncontroverted evidence presented which compared prices resulting from one-for-one GCRMs with those achieved by incentive mechanisms. At the time of the hearing, only Wisconsin Power and Light Company (WP&L) had implemented an incentive GCRM, and Commission staff had not completed its review of WP&L's performance. Based on the record, the Commission did not mandate the use of incentive GCRMs for utilities having significant control over their gas costs. Accordingly, both incentive GCRMs and modified one-for-one GCRMs may be used by Wisconsin utilities to recover their gas costs. (Modifications to the one-for-one GCRM are necessary to protect the interests of both ratepayers and shareholders for the larger LDCs).

Implementation. In its order, dated November 8, 1996, and in its supplemental order dated December 9, 1996, the Commission set forth certain implementation schedules and other filing requirements. All utilities were required to file a compliance GCRM filing as set forth in the supplemental order. Utilities were also ordered to comply with standard reporting requirements and Gas Supply Plan filing requirements. Gas Supply Plans will be approved by the Commission also with any subsequent changes related to firm capacity, storage, firm supply, and any other reliability related changes not included in the initially Commission-approved Gas Supply Plan.

As of the first half of 1997, Commission staff is currently processing GCRM compliance filings received by Madison Gas and Electric Company, Wisconsin Gas Company, and Wisconsin Public Service Corporation. Filings from Northern States Power Company; Superior Water, Light, and Power Company; Wisconsin Fuel and Light Company; and Wisconsin Electric Power Company are expected in late 1997. WP&L's incentive mechanism is currently in place. The smaller Wisconsin LDCs are not required to make a GCRM filing, but are required, as are all Wisconsin LDCs, to follow standard reporting requirements included in the order.

Restructuring Docket 05-GI-108. The Commission's objective is to foster a regulatory approach which incorporates competition to the extent it is consistent with the public interest. The goal is to remove barriers to the development of competition and to spur the development of customer choices for natural gas services. The Commission is proceeding with the policy implications of restructuring in several phases of docket 05-GI-108.

Phase I. An order in Phase I of this docket was issued in December 1995. The Commission determined that activities associated with the provision of natural gas to regulated and nonregulated customer segments should be financially and structurally separated. Doing so would prevent cross-subsidies in an area where cost allocation is difficult and would also allow the natural gas market to develop.

It was recognized that gas utilities would have to purchase supply and pipeline capacity to meet the daily and seasonal swings, but 100 percent of that supply and capacity would not be needed at all times. Therefore, when the utility is not fully utilizing the assets purchased to serve its regulated customers, these assets should be

sold to mitigate the total cost. The sale of these assets is referred to as opportunity sales of gas. The Commission did not put restrictions on opportunity sales but did require that standards of conduct be developed to govern them.

In this phase, the Commission also adopted new cost accumulation categories for use in rate case cost-of-service studies to better reflect the actual cost associated with the numerous activities necessary to provide service to the various customer classes. These new cost accumulation categories are a step toward being able to offer more choices through unbundled services.

Phase II. Through an industry-wide work group, Standards of Conduct were developed and approved by the Commission without hearing. Parties were given an opportunity to request a hearing but none did so. These Standards apply to all opportunity sales of gas and are intended to ensure such sales are made on a nondiscriminatory basis. They also provide separation standards between a gas utility and its affiliated gas marketer, if it has such an affiliate. Among other things, these Standards require that gas utilities file with the Commission and make available to interested parties, guidelines on the procedures they use when making long-term and short-term opportunity sales so that any interested party has easy, fair access to the assets being offered to the market. They also require monthly filings to the Commission of all opportunity sales, separating any sales made to its own affiliate from other sales. The order for Phase II was issued in January 1997.

Phase III. The Commission issued its order for this phase of the restructuring docket on June 9, 1997. The docket focused on three main areas:

1. What barriers exist, either regulatory or structural, which prevent or inhibit the introduction of competition in utility markets?
2. What standards should the Commission use to determine that a market is effectively and sustainably competitive to the extent that regulation could either be lessened or eliminated?
3. Should conditions be imposed on marketers serving formerly regulated markets?

The Commission determined that natural gas industry restructuring in Wisconsin should continue to move forward incrementally and that the current pace is appropriate. It also determined that it will remove barriers to competition where appropriate and will accommodate competition as it develops. The Commission noted that the most significant barriers to the development of competition in Wisconsin natural gas markets are the lack of pipeline capacity, the need to retain existing capacity to continue serving Wisconsin markets, and the need to resolve how low-income and essential services customers will be protected during the shift from a regulated industry to a competitive, market-based industry.

The Commission's approach to natural gas industry restructuring is based on the idea that when a market is effectively and sustainably competitive, the utility is removed from the market; service would be received from a nonregulated provider thus establishing standards for determining a market's competitive make-up is important. The Commission approved the following standards:

1. A reasonable number of suppliers.
2. Low barriers to competition.
3. Sufficient available capacity.
4. Responsive suppliers.
5. Informed customers.

These are applied on a case-by-case basis. The Commission also noted that small

gas utilities may be treated differently from large utilities, if appropriate.

The Commission also decided that natural gas marketers should be registered or certified in order to protect Wisconsin consumers. Customers must be able to make informed choices based on accurate information. The Commission also stated that for competition to be effective, prices charged by all market participants should be disclosed and publicly available.

The Commission found that it has the authority to authorize abandonment unconditionally or abandonment with conditions if it determines that a market is sufficiently competitive for natural gas supply.

There are issues which remain unresolved. The Commission has established six work groups to pursue these issues during the next two to three years. These include:

1. Capacity policy to develop policy recommendations for long-term capacity barrier removal, planning, and contracting.
2. Market registration/certification to develop a process to certify/register/ license marketers that establishes the capability of marketers to fulfill their delivery obligations.
3. Legislation to investigate legislative issues and recommend revisions.
4. End-user price reporting to develop a price reporting system for end-user natural gas prices in unregulated and deregulated markets.
5. Market-based pricing for large volume interruptible customers.
6. Consumer protection and essential services to develop processes necessary to ensure continued consumer protection and low-income service in a deregulated marketplace.

Alternatives to Traditional Regulation

WGC PARM. Since November 1994, Wisconsin Gas Company (WGC) has been operating under the three-year productivity-based alternative ratemaking mechanism (PARM) pilot authorized by the Commission in docket 6650-GR-112. The pilot is focused solely on that portion of WGC's rates related to distribution service. Under the pilot, distribution service rates are capped and WGC was granted limited pricing flexibility. Specific "success" measures were identified for the purpose of evaluating the pilot and measuring WGC's performance.

Under the pilot, WGC decreased distribution service rates on an annualized basis by $4,500,000 in 1995 and $3,000,000 in 1996. In October 1996, the Commission allowed the PARM pilot to be extended an additional year through October 31, 1998. Extending the pilot an additional year will allow both WGC and Commission staff to focus on implementing other policy initiatives and will also allow for a full evaluation of the performance of the three-year pilot to be completed during the fourth year.

WP&L Incentive PGA. In December 1994, in docket 6680-UR-109, the Commission authorized Wisconsin Power and Light Company (WP&L) to modify its existing PGA to include an incentive mechanism. Under the natural gas procurement incentive, the difference between the amount collected in rates for gas costs and the actual cost of gas was to be shared between ratepayers and shareholders up to an established maximum shareholder reward or penalty of $1,151,000. For 1995, WP&L refunded $3,312,530 to its gas customers and received $1,035,000 as its

share under the natural gas procurement incentive. For 1996, WP&L will refund $5,891,000 to its customers and receive $1,151,000, the maximum shareholder reward.

In docket 6680-UR-110, the Commission reauthorized, with modifications, the natural gas procurement incentive for WP&L's next biennial rate case period. Prospectively, amounts will be shared on a uniform 60/40 basis between ratepayers and shareholders with no limit on the maximum shareholder reward or penalty.

State Activities Before the FERC Under the Federal Intervention Project

During the 1996-97 biennium, ANR Pipeline (ANR) had its first rate case following Federal Energy Regulatory Commission (FERC) Order 636 (Order 636 removed the pipeline from the gas merchant function and unbundled pipeline transportation, storage, and other services). This case is significant not only because ANR transports over 70 percent of the gas consumed in Wisconsin, but because it is the first opportunity to review costs and service offerings in the unbundled era. Among other things, ANR requested a rate increase of $218 million.

The hearing began in January 1996, lasted three months, and involved 50 witnesses and over 7,000 pages of transcripts. Commission staff attorneys and analysts participated and offered testimony both on behalf of the State of Wisconsin and as part of a coalition with other states also served by ANR.

The Administrative Law Judge who presided over the hearings has issued an initial decision which must now be acted on by the FERC Commissioners. A date for such action has not yet been set.

Natural Gas Rate Case Actions

Docket Number	Utility	Dollars Requested	Dollars Granted	Final Order	Percent Change
3270-UR-108	MG&E	$3,650,000		[1/]	
3670-GR-101	MNG	740,431	$ 334,429	02/09/96	4.77
			91,626	[2/]02/06/97	1.31
4220-UR-108	NSP	2,662,956	2,510,000	12/21/95	3.40
4220-UR-109	NSP	0	0	11/27/96	.00
5820-UR-106	SWL&P	772,700	491,038	03/29/96	4.63
6640-GR-106	WF&L	1,479,100	1,099,800	10/11/95	2.31
6670-GR-109	WNG	0	[3/](8,298,000)	09/11/95	(2.60)
6630-UR-109	WEPCO	4,269,000	(6,468,000)	02/17/97	(2.00)
6680-UR-110	WP&L	2,411,000	(1,205,000)	04/29/97	(2.18)
6690-UR-110	WPSC	7,300,000	5,687,000	02/25/97	2.70

MG&E — Madison Gas and Electric Company
MNG — Midwest Natural Gas, Inc.
NSP — Northern States Power Company
SWL&P — Superior Water, Light, and Power Company
WF&L — Wisconsin Fuel and Light Company
WNG — Wisconsin Natural Gas Company
WEPCO — Wisconsin Electric Power Company
WP&L — Wisconsin Power and Light Company
WPSC — Wisconsin Public Service Corporation

[1/] Order anticipated to be issued by July 1, 1997
[2/] Supplemental order
[3/] Revenue excess was reduced from $8,298,000 to $4,629,203 as a result of consolidating the rates of Wisconsin Southern Gas Company and Wisconsin Natural Gas Company

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DIVISION OF WATER, COMPLIANCE, AND CONSUMER AFFAIRS

Third Order in the MMSD-FLOW Dispute Issued

In July 1996, for the third time since 1991, the Commission addressed issues related to the 12-year old dispute between the Milwaukee Metropolitan Sewerage District (MMSD) and the surrounding suburban communities. In its order dated September 11, 1996, the Commission determined that no representation or promise was made by the MMSD to the surrounding suburbs, also known as the FLOW communities (Fair Liquidation of Waste), that it would continue to charge the communities on a volumetric basis through the year 2005. The Commission also found that MMSD is entitled to interest on any outstanding amounts owed to it by the communities. However, the Commission determined it is not reasonable to compound the interest.

Although the Commission found that the practices of MMSD were not unreasonable, the MMSD's treatment of their customers (the FLOW communities) was. The Commission referred to instances where MMSD was not responsive to inquiries made by the FLOW communities and was not as open in presenting information to the communities as it should have been.

The Commission's decision was the latest chapter in a long-running dispute between MMSD and the FLOW communities over how to pay for the costs associated with the construction of MMSD's $2.2 billion Wastewater Pollution Abatement Project (WPAP).

Streamlined Rate Case Process for Municipal Water and Sewer Utilities

On May 28, 1996, Wisconsin Governor Tommy Thompson signed legislation creating a streamlined rate case process. The Commission sought the legislation to provide municipally-owned water and combined water and sewer utilities a simple and convenient means to gradually increase water and sewer rates and avoid large increases. The rate case streamlining represents one of the biennium's significant process improvements.

Under the Commission process, simplicity is balanced with regulatory oversight. The rate adjustment is not automatic but is contingent upon meeting a simple financial needs test; in general, the increase can be no greater than an inflationary amount. In addition, the law contains provisions that will ensure that a water or sewer public utility would complete a conventional rate case periodically. Local government and public utility officials appreciate the flexibility afforded by this simple rate process. Customers and consumer advocacy groups will benefit from a process that can significantly alleviate large rate increases.

Water Rulemaking

The standards for water utility service received final Commission approval in November 1996. The rule revisions were the

first undertaken since the early 1980s. The Commission undertook the revision to reflect the changes in technology and, more importantly, to make the rules easier for water customers to read and understand.

The rules govern the standards which must be met by public water utilities. These standards are in the areas of recordkeeping, metering, billing, customer relations, and system operations. The new rules became effective February 1, 1997.

Video Conference Training for Water Utilities

As part of its efforts to become a major source of public information, the Commission has turned to the advantages of video technology to provide training.

In October 1996, the Division of Water, Compliance, and Consumer Affairs (DWCCA) sponsored a series of video conference training seminars for water utilities. Experimenting with video conferencing as a medium for training, the DWCCA staff conducted training links with 11 sites across the state. About 210 individuals representing 105 utilities took part. The training addressed issues like rate case process, depreciation benchmarks, and frequently asked accounting questions. The Commission was pleased with the response of the water industry to its first attempt at training via video conferencing technology.

In April 1997, DWCCA staff conducted another round of training sessions using video conference equipment. This conference was also presented four times with links to 13 different sites across the state. The 1997 conference had 387 registrants representing 219 utilities. The content of the seminar covered the technical and consumer issues of Chapter PSC 185 of the Wisconsin Administrative Code and provisions of Act 419. The training was very well received by the participants.

Because of the success the DWCCA staff had with video conference training seminars, more educational seminars will be planned in the future for water utilities and other utility industries as well.

Consumer Affairs Pilots

The Consumer Affairs Unit worked with utility staff to gain Commission approval of three pilot projects with innovative approaches to consumer issues. Each of the pilot projects required temporary waivers of PSC Administrative Rules.

Wisconsin Gas Company's Multiple Moratorium Nonpayer Project studied alternative collections procedures. The project was designed to improve amounts collected from and to change the bill paying habits of residential gas customers who appear to have the ability to make payments but do not during the winter moratorium period when disconnection of service for nonpayment is prohibited. A pilot group of 100 customers who had not paid their gas bills over the past two winters was selected and given stringent terms for payment of their arrears. If they did not pay, they faced disconnection without further notice at any time over the summer. (Current rules require a new notice if the disconnection does not take place within 15 days of the first notice.) The first year of the pilot proved successful and as a result the Commission approved a proposal for a second year of the project which would expand participation to all customers who had not made payments over the past two heating seasons. An evaluation report for the second year is due in 1998.

GTE North Has Been Operating Its Advanced Credit Management Pilot Project since September 1995. The Commission granted a waiver of the rules on refusal of service to allow GTE North to establish credit limits for toll charges of customers who were determined to be credit risks. If customers are determined to be a credit risk based on their bill paying history, they have the ability to make toll calls blocked if their unpaid toll bills exceed $200 for high credit risk customers and $300 for medium risk customers. The program has shown some success in helping customers avoid having telephone bills which are beyond their ability to pay and in helping them avoid disconnection of their basic telephone service.

Telecommunications Customer Assistance Program. In December 1995, the Commission approved Ameritech's proposal for a pilot Telecommunications Customer Assistance Program. The purpose of the program is to help keep customers with persistent bill paying problems from losing basic telephone service. The program includes the following features: a contract with a community-based agency to provide services to referred customers; imposing toll restriction and restriction of access to other services and advanced calling services; late payment fees (an Administrative Rule waiver was required for this); delay of disconnections when there is a medical necessity; and an amnesty plan for reduction of "written off" arrearages.

Complaints From Utility Customers Increase

Complaints received by the Commission from utility customers continue to increase dramatically. The 7,072 complaints received in 1996 are a 41 percent increase over the 5,000 received in 1995 and an 85 percent increase over the 3,822 complaints received in 1994. Telephone industry complaints were 62 percent of the total for 1995 and 1996. The 4,463 telephone complaints in 1996 were a 50 percent increase from the 2,967 received in 1995 and a 181 percent increase over 1994. The level of Commission regulation of telecommunications companies was significantly decreased with the passage of Wisconsin Act 496 in 1993.

The largest category of Commission complaints involves billing (deferred payment agreements, disconnections, etc.). The increase in billing complaints is driven by increased and more aggressive collection practices and the number of utility customers who are having problems paying their bills because of low incomes.

Municipal Water Utility FIRM Program Approved

The Commission anticipates a growing need for municipal water utilities to replace old infrastructure in order to provide for reliable and adequate water delivery systems in the future. The Commission has approved a Funding Infrastructure Replacement Mechanism (FIRM) policy designed as a proactive approach to address the financing of this need. The FIRM policy provides the necessary cash flow for municipal water utilities engaged in infrastructure replacement.

The calculation of the dollar amount needed under the FIRM proposal for infrastructure replacements will be converted to a rate-of-return incremental increase and included in the utility revenue requirement and customer rates.

Depreciation Benchmarking Adopted for Water Utilities

The Commission has one depreciation specialist assigned to review over 600 municipal water depreciation rates. The Commission adopted a new tool called depreciation benchmarking to assist in the review process. A table of acceptable depreciation rates ranges was developed. This table of ranges allows the Commission staff to automatically approve rates falling within the ranges and concentrate its review process only on rates falling outside the range.

The depreciation benchmarks make use of the wealth of information in the Commission's computer databases. Computer databases allow Commission staff to electronically sort and identify problem areas quickly and efficiently. The depreciation rate ranges allowed the Commission to simplify and improve its processes while providing quality review and analysis.

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TELECOMMUNICATIONS DIVISION

Industry Restructuring

The Public Service Commission of Wisconsin (Commission) has aggressively initiated and implemented policies to rely upon competition rather than regulation to determine the variety, quality, and price of telecommunications services. Since the enactment of 1993 Wis. Act 496 (Act 496) and the Telecommunications Act of 1996 (1996 Act), the Commission's regulation of the telecommunications industry has been drastically changed. To implement both state and federal law, the Commission has opened and completed several investigations and rulemaking proceedings.

Local Competition

During the past two years, the Commission has been investigating the standards necessary to promote the development of local exchange competition. The goal is to provide local telephone customers with competitive choices, lower costs, and higher quality. As a result of this investigation and in response to the newly enacted Federal 1996 Act, the Commission established these standards; implemented a process for negotiating, mediating and arbitrating interconnection agreements; and required Ameritech and GTE North to file tariffs so that new competitors could interconnect with them to provide alternative local service. The Commission has also authorized 22 new entrants to compete in the local exchange market. The Commission is currently developing rules for regulating new entrants, establishing an industry forum to deal with technical issues, investigating procedures for opening customer contracts to new entrants, and developing a consumer education program. Moreover, the Commission has arbitrated five local interconnection disputes between new entrants and either Ameritech or GTE North. Three arbitration cases are currently pending. Five voluntarily negotiated interconnection agreements have been approved by the Commission. Five more are pending approval.

Ameritech Entry Into the Long Distance Market

Ameritech must meet a set of federally-set criteria relating to local competition (often referred to as the competitive checklist) before it is allowed to offer interLATA (long-haul) toll service. The Commission has investigated whether Ameritech's filing meets these standards. After extensive investigation and hearing, the Commission has ordered Ameritech to revise its filing finding that it failed to meet these standards. Ameritech and the Commission are actively pursuing resolution to this issue.

IntraLATA 1+ Presubscription

After an initial investigation, the Commission ordered the implementation of intraLATA equal access (ability of a customer to choose which provider will carry their short-haul toll calls by dialing 1 and a ten digit telephone number, i.e., 1+) through a process of *bona fide* requests. Subsequently, several providers filed such requests with both Ameritech and GTE. After being refused equal access, the providers filed a complaint seeking enforcement of the Commission's directive. After further investigation and hearing, the Commission ordered Ameritech and GTE to convert all of their exchanges to intraLATA 1+

by September 1, 1996; and January 8, 1997; respectively. Circuit Court Judge Moria Krueger refused Ameritech's request to stay the Commission's July 25, 1995, order requiring Ameritech to provide equal access to competitors. These conversions have been completed.

Split of 414 Area Code Approved

Because of the increasing demand for telephone numbers caused by the entry of new competitors into the telecommunications market and due to increasing customer demand for additional lines and services (i.e, for cellular telephones, pagers, extra lines for modems and facsimile machines, etc.) the 414 area code reached a critical point in 1996. The industry estimated that the available numbers in the 414 area would be exhausted in early 1998. To address this matter, the Commission conducted hearings to consider whether to split the current 414 area code into two or to "overlay" a second area code over the existing 414 area. Following an extensive comment process and several public hearings, the Commission ordered that the existing 414 area code be split into two sections. The more southern portion including Milwaukee, Racine, and Kenosha will retain the 414 area code. The northern portion, including the Fox Valley, Sheboygan, Manitowoc, and Green Bay will be assigned a new area code 920. Customers in this area will need to change their area code; however, customers will not experience a change in the basic seven-digit telephone numbers they now have. Use of the new 920 code began on July 26, 1997, and will become mandatory in October 1997. The industry is working to inform and educate customers about this change.

Universal Service

In 1993, Wisconsin Act 496, the legislature by s. 196.218, Stats., directed that the Commission establish a universal service fund and set up a universal service program to assist low-income customers, customers in high-cost areas of the state, and customers with disabilities. The statutes also specify that the universal service fund be used to "promote affordable access throughout the state to high-quality education, library, and health care information services." The universal service fund is supported by assessments on the intrastate revenues from telecommunications services of the telecommunications providers in Wisconsin.

The Commission established an advisory board, the Universal Service Fund Council, which consists of public and telecommunications industry members. In 1995, the Commission conducted a rulemaking process and established Chapter PSC 160, Wis. Adm. Code, related to universal service. Those rules were effective on May 1, 1996.

Some of the key elements of the Commission's universal service rules are:

1. The identification of the essential components of universal local exchange service that shall be available at affordable prices to all residents of the state.
2. Requirements for advanced service capabilities to be available upon request in a timely manner and at affordable prices throughout the state.
3. Free toll blocking service for low-income customers and the general availability of toll blocking to all customers.
4. Link-Up and Lifeline programs to make essential service more affordable for

low-income customers. Eligibility criteria for the various universal service programs designed to protect low-income customers were set, including an expansion of eligibility to cover customers that receive the Wisconsin Homestead Tax Credit.

5. The availability of voice-mail services to agencies servicing the homeless without charge so they are more accessible by telephone to employers, medical services, social services, and other necessary contacts.
6. A voucher program to assist customers with disabilities in the purchase of telecommunications equipment necessary for affordable access to and comparable use of essential services.
7. Clarification that the responsibility to assure pay telephone usability by persons with disabilities applies to pay telephone service providers.
8. The adaptation of the Commission's existing rate ceiling policy, that keeps rates at a reasonable level, to address competitive telecommunications markets.
9. A provision that permits telecommunications utilities to propose and the Commission to approve other universal service programs to protect high-cost customers, if those alternative proposals are in the public interest.
10. The continuation of the Commission's current rate shock mitigation policy that allows the phasing-in of large increases in monthly rates.
11. Establishment of a rate discount program for institutional customers to promote affordable access throughout the state to high-quality education, library, and health-care information services.
12. Assignment of a provider of last resort for local services and a process for change under competition.
13. A process for changing the provider of last resort for intraLATA toll services.
14. Prohibition of identification of a charge on customers' bills for recovery of payments to the Universal Service Fund (USF).
15. Provisions relating to appointing a USF administrator and requiring an annual audit of the fund. A budgeting process for the USF.
16. Procedures of USF assessment calculations, collections, and disbursements of payments.
17. Guidelines for the formation and operation of a Universal Service Fund Council which advises the Commission on administration of the USF and development of these rules.

The programs established for high-cost support, support for special equipment purchases, and support to institutions are operating today. Lifeline and Link Up programs are also underway although one aspect of the eligibility process (the homestead tax credit qualifier) is still being finalized. The program for voice mail for the homeless is available but no agency has yet requested the service, although it is being examined now in Milwaukee.

The fund is operating with an $8,000,000 annual budget. The Commission has hired an administrator to handle assessments, collections, and program operations and disbursements.

The statutes require that the Commission examine the universal service definitions and programs at least every two years. The Commission and Universal Service Fund Council will be starting that

review very soon to consider improvements and clarifications to the existing programs. Universal service changes have been recently adopted by the Federal Communications Commission and there are some universal service fund issues included in the pending state budget related to support for school and library technology enhancements. The Commission and the Universal Service Fund Council will be examining how these various programs can best be made to work together.

Infrastructure Development

Infrastructure Commitment Plan of Price and Alternatively Regulated Companies. By electing price regulation under Act 496, both Ameritech and GTE North filed an investment commitment plan which was approved by the Commission. The Commission monitors both Ameritech's and GTE's investments on a quarterly basis and adjusts their price ceilings based on compliance with their investment commitment plans. The Commission has also approved alternative regulatory plans for some smaller local exchange companies that contain infrastructure commitments and monitoring requirements.

Infrastructure Report to the Legislature

In January 1996, the Commission completed its first in a series of biennial reports to the Legislature on the status of investment in advanced telecommunications infrastructure in Wisconsin. The report is required by Wisconsin Act 496 and is intended to evaluate the legislation's effectiveness in promoting investment in advanced telecommunications in Wisconsin. The report documents the current status of investment in areas such as distance learning networks, the interconnection of libraries, access to health care, opportunities for persons with disabilities, and the use of telecommunications to improve the delivery of government services. The report also documents the amount of investment in transmission and switching technologies by telecommunications providers as well as the availability of advance services such as Integrated Services Digital Network (ISDN), Caller ID, 911 and access to the Internet and video services. In addition, the report contains recommendations for improving the progress of investments in advance telecommunications infrastructure. In December 1996, the Commission issued an appendix to this report wherein a series of maps graphically display infrastructure deployment throughout the state. The Commission's next infrastructure report to the Legislature is due in January 1998.

Quality of Service

Quality of Ameritech Services Investigated and Litigated. In August 1995, the Commission directed its staff to conduct an investigation into the quality of the services offered by Ameritech to its customers. The Commission took the action in response to a dramatic increase in the number of complaints it received regarding Ameritech's service problems in the period from February through October 1995. The two primary issues of concern to the Commission were: (1) the time it takes to have service restored; and (2) the length of time it takes Ameritech to answer a call to its repair bureau and customer care center. The immediate concern of the Commission's investigation was to ensure that Ameritech restored service quality at reasonable levels. The Commission's investigation determined that the degradation of Ameritech's service in Wisconsin violated provisions of state law pertaining to minimum standards of service quality requiring telephone companies to reestablish service within 24 hours in 95 percent of all routine out-of-service

complaints, and to answer repair calls within 20 seconds. Accordingly, the Commission commenced court action to recover statutory forfeitures and refunds for customers, as well as an injunction that would prohibit Ameritech from allowing similar service deterioration in the future and would require Ameritech to comply with a rigorous Commission monitoring program. The Commission chose civil court action in this case so that it could act quickly and to send a signal to other telephone, electric, and natural gas companies that the Commission is serious about service quality and reliability. A Circuit Court granted Ameritech's Motion to Dismiss holding that the Legislature did not grant the necessary authority to the Commission in Wisconsin Act 496. The Commission appealed in August 1996 and also referred the consumer complaints to the Attorney General at the same time. The Court of Appeals upheld the Circuit Court's decision in its own decision issued in May 1997.

Commission Creates Consumer Protection Forum

With the creation of a Telecommunications Consumer Education Industry Forum, the Commission took another step forward in its effort to protect telecommunications customers in the state of Wisconsin.

Commission Chairman Cheryl L. Parrino appointed Commissioner Daniel J. Eastman to be the chairperson of the Telecommunications Consumer Education Industry Forum. The Forum is staffed by members of the following groups:

1. Consumers
2. Other state agencies
3. Incumbent local exchange carriers
4. Long distance carriers
5. Resellers and facilities-based competitive local exchange carriers

The Commission established the Forum because it believes education will be a key component as consumers make telecommunications choices in the future. Consumers cannot be expected to make educated decisions unless they receive the appropriate information in a timely fashion.

The Forum will evaluate the most appropriate means of educating residential and small business customers about changes in the telecommunications market, including the local, intraLATA, and interLATA long distance markets.

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OFFICE OF INFORMATION TECHNOLOGY

In 1996, the Commission, as part of its commitment to continuous improvement, reorganized its Bureau of Information Services (BIS) in order to better meet the Commission's needs for information technology (IT) resources and support. The Office of Information Technology (OIT) was formed by separating the former BIS from the Division of Administrative Services (DAS). The position of Chief Information Officer (CIO) was created to manage OIT. The CIO became a member of the agency's top management team, the Administrative Council (AC) and reports directly to the Chairman of the Commission. The role of the CIO is to focus the Commission's IT resources on meeting the goals of the agency's strategic business plan. OIT consists of two subunits: Applications Development and Distributed Computing (PC/LAN). Beginning in 1996, all new applications developed at the Commission are client/server in nature and are created using PC-based tools.

In 1996 and 1997, the Commission took major steps toward meeting the state's new IT infrastructure standards. All desktop personal computers (PCs) were converted from OS/2 to Windows 95 or Windows NT Workstation 4.0 and all business applications were migrated to the Microsoft Office Professional 95 Suite (Word, Excel, PowerPoint and Access). The Commission's network was upgraded to new, more powerful servers and the network operating system was converted from OS/2 LAN Server to Windows NT Server 4.0. Near the end of the biennium, the Commission completed its migration from cc:Mail (e-mail) and Time and Place (scheduling) to Microsoft Exchange 5.0 and Schedule+ 95. By moving quickly to implement many of the new state standards, the Commission has provided its staff with better tools to carry out their responsibilities in a more efficient manner, while lowering the costs of IT resource acquisition and support.

In this biennium, the Commission also initiated an Internet Web Site for providing access to agency information and documents. In the last quarter of the biennium, OIT assumed full responsibility for the Web Site and, acting in consultation with the Agencywide Public Information and Education Team (APIET), performed a complete overhaul of the design, organization, and content of the site. Processes were developed to begin posting new and constantly updated information, such as the public hearing calendar, the Commission's open meeting agenda and schedule, and a large number of Commission publications and orders. As the biennium closed, OIT had begun planning and implementation of the provision of direct Internet access on the desktops of every Commission employee in order to fully exploit the benefits of compiling information from the World Wide Web.

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DIVISION OF ADMINISTRATIVE SERVICES

Alternative Work Patterns

The Commission continues to have a strong Alternative Work Patterns (AWP) program with a high rate of participation. Of the Commission employees, approximately 77 percent work a nonstandard or flexible schedule. Only 24 percent of our employees work a standard 7:45 a.m. to 4:30 p.m. Monday through Friday schedule. Six percent work a part time schedule varying from half time to 90 percent.

AWP benefits the agency and employees alike and maximizes the employment options available to existing and potential state employees.

Affirmative Action

The Commission has in place a permanent Affirmative Action Advisory Council. The Council's membership represents all divisions in the agency. The Council's responsibilities are to assist in the development and implementation of affirmative action policies and program areas, to monitor hiring and promotional activities, to develop and coordinate affirmative action training, and to inform new employees of the affirmative action laws, policies, and complaint procedures.

One of the Council's major activities during the biennium was the preparation of the Commission's 1997-1999 Affirmative Action Plan. This plan contains the Commission's equal employment opportunity and affirmative action policy, identifies short-term and long-term affirmative action objectives, and describes programs and procedures in key areas such as recruitment, hiring, upward mobility, and reasonable accommodations.

In addition, the Council assisted with the Commission's participation in the Summer Affirmative Action Intern Program. This statewide program provides valuable training, experience, and exposure to the Wisconsin civil service system for racial/ethnic minority and women students and students with disabilities. In 1996, the Commission employed one summer intern to work on environmental projects in the Electric Division. In 1997, two interns were hired. One worked as a programmer in the Division of Water, Compliance, and Consumer Affairs and the other worked as an environmental assistant in the Electric Division.

In conjunction with the national "Take Our Daughters to Work Day" program, the Affirmative Action Advisory Council also sponsored a "Careers Day" in 1996 and 1997. A total of 48 children attended the two events including guests from Big Brothers/Big Sisters and the Hispanic Group "Juvenud." Finally, the Council sponsored several training workshops during the biennium as well. Altogether, 169 staff members attended these seminars. Topics covered included "Excellence Through Multi-cultural Understanding," "Speechcraft," "Aids in the Workplace," and "Multicultural Diversity Awareness."

Intervenor Requests Approved by Commission

Commission proceedings continue to draw significant interest from groups wishing to make their case for changes in utility regulation. Intervenor compensation funding has provided numerous groups the ability to intervene in Commission proceedings.

In the 1995-1997 biennium, the Commission received a total of $500,000 in base funds and $371,000 in one-time funding. The Commission has approved $660,782 of compensation during this biennium.

Intervenor Financing Approved as of June 30, 1997

Docket Number	Intervenor	Approved
05-BE-101	Citizens' Utility Board	$ 12,830
	International Brotherhood of Electrical Workers	1,500
05-BE-103	Citizens' Utility Board	10,010
	International Brotherhood of Electrical Workers	1,341
	Wisconsin Environmental Decade	7,170
05-BU-100	Citizens' Utility Board	15,270
	International Brotherhood of Electrical Workers	1,025
	RENEW Incorporated	5,140
	Wisconsin Community Action Program	18,000
	Wisconsin Environmental Decade	9,390
05-EI-108	Wisconsin Farmers' Union	9,544
05-EI-114	Citizens' Utility Board	87,298
	RENEW Incorporated	4,000
	Wisconsin Community Action Program	3,000
	Wisconsin Environmental Decade	22,250
05-EI-115	Wisconsin Farmers' Union	27,900
05-EP-7	Alliance for Clean Energy Systems	43,470
	RENEW Incorporated	9,930
05-EP-8	RENEW Incorporated	5,200
05-GI-108	Wisconsin Community Action Program	45,455
1-AC-164	Citizens' Utility Board	10,872
	International Brotherhood of Electrical Workers	7,225
4220-CE-155/1515-CE-102	Concerned River Valley Citizens	3,800
6630-UM-100/4220-UM-101	Citizens' Utility Board	118,500
6630-CE-197	Citizens' Utility Board	30,975
6630-CE-197/209	Lake Michigan Federation	5,500
6630-CE-209	Citizens' Utility Board	32,613
6630-EI-104	Citizens' Utility Board	4,100
6630-UR-109	Citizens' Utility Board	65,438
	RENEW Incorporated	16,500
6680-UM-100	Citizens' Utility Board	24,765
6720-TI-102	Citizens' Utility Board	771
TOTAL		$660,782

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LIST OF ACRONYMNS

1996 Act	-	Telecommunications Act of 1996
AC	-	Administrative Council
Act 496	-	1993 Wis. Act 496
ANR	-	ANR Pipeline
APIET	-	Agencywide Public Information and Education Team
ATUs	-	Alternative Telecommunications Utilities
AWP	-	Alternative Work Patterns
BIS	-	Bureau of Information Services
CIO	-	Chief Information Officer
Commission	-	Public Service Commission of Wisconsin
DAS	-	Division of Administrative Services
DPC	-	Dairyland Power Cooperative
DSM	-	Demand-Side Management
DWCCA	-	Division of Water, Compliance and Consumer Affairs
EIS	-	Environmental Impact Statement
FERC	-	Federal Energy Regulatory Commission
FIRM	-	Funding Infrastructure Replacement Mechanism
FLOW	-	Fair Liquidation of Waste Communitites
GCRMs	-	Gas Cost Recovery Mechanisms
IEC	-	Interstate Energy Corporation
ISDN	-	Integrated Services Digital Network
IT	-	Information Technology
kV	-	Kilovolt
LDCs	-	Local Distribution Companies
MEQB	-	Minnesota Environmental Quality Board
MMSD	-	Milwaukee Metropolitan Sewerage District
MW	-	Megawatt
NRC	-	Nuclear Regulatory Commission
NSP	-	Northern States Power Company
OIT	-	Office of Information Technology
PARM	-	Productivity-Based Alternative Ratemaking Mechanism
PCs	-	Personal computers
PGA	-	Purchased Gas Adjustment
PSC	-	Public Service Commission of Wisconsin
RUS	-	Rural Utilities Service
USF	-	Universal Service Fund
WEPCO	-	Wisconsin Electric Power Company
WGC	-	Wisconsin Gas Company
WP&L	-	Wisconsin Power and Light Company

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COMMISSION DIRECTORY

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Daniel J. Eastman
Commissioner 267-7899
Joseph P. Mettner
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