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Major Challenges and Opportunities Face Policymakers and Investors in 2007

The past year has been a very successful one for WUI and its members with renewal of the dividend tax cut, progress on fuel rules, introduction of VoterVoice and positive input on many public policy issues affecting utility investors. However, 2007 is already shaping-up to be a difficult challenge for the Governor and state legislators as they face what the Wisconsin Department of Administration (DOA) projects to be a \$1.6 billion deficit at the end of fiscal year '09 based on state agency budget requests and anticipated tax collections for the coming biennium. A split in control of houses of the legislature is certain to add problems in resolving philosophical differences in the direction the state should be headed.

Some of the more significant general purpose revenue (GPR) spending increases requested include:

- DPI (Public Instruction) - \$662 million GPR; including \$422 million in general equalization aids to cover approximately 2/3 of school funding.
- DHFS (Health and Family Services) - \$343 million GPR over the biennium for increasing costs of Medicaid (\$305 million), BadgerCare (\$16.6 million) and SeniorCare (\$21.3 million).
- UW System - \$85 million GPR plus an additional \$35 million in tuition fee increases for a total GPR/Fee request of \$120 million.
- Corrections - \$247 million GPR (13.2% increase) for current operations and commitments including 311 added positions by the end of the biennium.

These four agency requests total an increase of \$1.337 billion over the state's current budget. Adding to these problems, state revenues (tax collections) are projected to grow by \$450 million in fiscal year '08 (3.6%) and by \$522 million in fiscal year '09 (4.0%). Revenue growth has always been used to fill the revenue gaps in the past, but the implementation of phased-in tax cuts enacted over the last four years amounting to \$600 million in the next biennium will make it much more difficult.

Governor Doyle and Assembly Speaker Mike Huesch have both indicated they do not support raising taxes. However, even before the session has begun, the Governor and the newly elected Democrat majority appear to have significantly different ideas about taxes and some other issues. One proposal would have sales taxes and possibly other taxes raised as an offset to property taxes. The Governor has also hinted at his support for a \$1 increase in the tax on a pack of cigarettes. Accounting tricks and raids on segregated funds such as the highway fund and utility public benefits money, which have been used in the past to help fill the budget deficits, will be much more difficult to accomplish this time around.



Governor Jim Doyle



Assembly Speaker Mike Huesch

Utility issues will center around construction, fuel volatility, and transmission siting. On the national level, permitting new natural gas sources on the outer continental shelf will be important to help reduce price volatility

Bipartisan Agreement Reached on Major Ethics Reform Measures

Following ethics convictions of a number of state officials, and charges of corruption during the recent Gubernatorial race, Governor Jim Doyle, Assembly Speaker Mike Huebsch, Senate Majority Leader Judy Robson, along with the other major legislative leaders from both sides of the aisle, have announced an agreement to finally pass major bipartisan ethics reform early in the 2007 session.



Under the agreement, the State Elections Board and the State Ethics Board will be merged to create one independent non-partisan Government Accountability Board, free from political appointees. Charges of political influence were made during the

recent Governor's race when Democrat member of the State Elections Board voted to deny Republican Mark Green the use of more than \$400,000 in campaign funds. Instead of being appointed by the Governor and political parties, a panel of Court of Appeals judges will create a pool of retired judges. The Governor will select names from that list, and the choices will be confirmed by the legislature. The new board will have the power to conduct any investigation it authorizes, without the need of approval from the Governor or Legislature. These can be either criminal or civil matters.

The Governor is expected to call a special session of the Legislature to hold hearings and act on the bill during January.

Wisconsin Energy to Sell Point Beach Nuclear Power Plant

Wisconsin Energy Corporation has announced that its subsidiary, We Energies, will sell its Point Beach Nuclear Power Plant, located in the Town of Two Creeks, Wisconsin, to FPL Energy. The 1033 megawatt facility will be purchased for approximately \$1 billion.



The plant first went into service in 1970 and has been relicensed to operate until 2033. As a part of the deal, FPL Energy will get the plant, its nuclear fuel

and associated inventories and will enter into a long-term agreement to sell 100 percent of the plant's output to We Energies. As they did in the case of the sale of the Kewaunee Nuclear Power Plant, the Citizen's Utility Board has indicated opposition.

Wisconsin Public Service Corporation Requests Weston Unit 3 Upgrade

After 25 years of successful operation, Wisconsin Public Service Corporation, a subsidiary of WPS Resources, has asked state regulators to approve the addition of new environmental controls at the company's 330-megawatt Weston Power Plant Unit 3.

According to the company, Weston 3 has been the backbone of the electric system in central Wisconsin since 1981 when it went into service. To



ensure many more years of operation, the company said this is a good time to update some of the unit's systems and equipment. The changes will complement the new 500-megawatt Weston Unit 4, now under construction and scheduled to be complete and in operation by 2010.

A force of 200 construction workers will have the job of completing the project. Local contractors and suppliers will be used whenever possible. The emission control projects are designed to meet new, more stringent fossil-fueled emission requirements issued by the U.S. Environmental Protection Agency in March of 2005.

Major Challenges and Opportunities...

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Legislative leaders have now agreed to a floor session schedule for the 2007. Governor Doyle is expected to deliver the 2007 State of the State Message to a joint legislative session on Tuesday, January 23. No date has been set for the 2007 Budget Message. Following the inauguration on January 3, the legislature will meet January 9th, then January 9th thru February 1st, with other floor periods following.

Anytime policymakers are searching for money, business investors must be on constant guard to protect their interests. During 2007, WUI and its members will continue to work hard supporting public policies that are good for taxpayers, customers and investors alike.

Xcel Experimental Wind to Hydrogen System Up and Running

Xcel Energy and the U.S. Department of Energy's National Renewable Energy Laboratory have unveiled a unique facility that uses electricity from wind turbines to produce and store pure hydrogen, offering what may become an important new template for future energy production.

Several dozen journalists, environmental leaders, government officials and Xcel Energy managers toured the joint venture, which is located at NREL's National Wind Technology Center between Golden and Boulder, Colo.

"Today we begin using our cleanest source of electricity — wind power — to create the perfect fuel: hydrogen," said Richard C. Kelly, Xcel Energy chairman, president and CEO. "Converting wind energy to hydrogen means that it doesn't matter when the wind blows since its energy can be stored on-site in the form of hydrogen."

The facility links two wind turbines to devices called electrolyzers, which pass the wind-generated electricity through water to split the liquid into hydrogen and oxygen. The hydrogen can be stored and used later to generate electricity from either an internal combustion engine turning a generator or from a fuel cell. In either case, there are no harmful emissions, and the only by-product from using the hydrogen fuel is water. On site is a new building that houses the electrolyzers and a device to compress the hydrogen for storage; four large, high-tech tanks to store the hydrogen; a generator run

by an engine that burns hydrogen; and a control room building, where computers monitor all the steps of the process. Xcel Energy and NREL are each paying part of the \$2 million budget for the two-year project.

"The project allows our researchers to compare different types of electrolyzers and work on increasing the efficiency of a wind to hydrogen system," said Dan Arvizu, NREL director. "And, it has the potential to point the way to a completely emissions-free system of making, storing and using energy."



"Today we begin using our cleanest source of electricity — wind power — to create the perfect fuel: hydrogen,"

RICHARD C. KELLY, XCEL ENERGY CHAIRMAN, PRESIDENT AND CEO

Currently, there are limitations to both wind power and hydrogen. Wind farms only generate electricity when the wind is blowing, which is about one-third of the time in the United States. This creates the need for backup generation, which is usually fossil-fueled. Hydrogen, while the most common element in the universe, isn't found in its pure form on Earth and must be either electrolyzed from water, or stripped out of natural gas, which are energy-intensive processes that result in greenhouse gas emissions.

"By marrying wind turbines to hydrogen production, we create a synergy that systematically reduces the drawbacks of each," Kelly said. "Intermittent wind power is converted to a stored fuel that can be used anytime, while at the same time offering a totally climate-friendly way to retrieve hydrogen to power our homes and possibly cars in the future."

Second Part of \$50 Refund to be Paid on WP&L Bills

Wisconsin Power and Light Company, a subsidiary of Alliant Energy Corporation, will have completed issuing a two-part credit for its natural gas customers in December and January. The total credit amount is approximately \$13 million.



The credit is the result of an innovative natural gas purchase plan WP&L developed to share natural gas purchase cost savings with customers. It reflects actual natural gas purchase costs compared to therm costs reported in industry publications. The publications list the market price of gas as established by a survey of actual purchases and sales, which is the basis for the price WP&L customers pay for natural gas each month.

The natural gas purchase credit is based on customer usage over the individual credit audit period. Customers will see the second of the two-part credit on either their December or January bill. The credit is expected to total about \$10.71 for the average residential customer using approximately 800 therms per year.

The credit represents gas purchase savings from November, 2004, through October, 2005. WP&L received permission from the Public Service Commission of Wisconsin to issue approximately 80 percent (\$10.4 million) of the credit in December, 2005, and January, 2006. The remaining portion of the credit (\$2.6 million) has been issued.

2005 - 2006

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Wet, Heavy Snow Leaves Nearly 30,000 Without Power in North Central Wisconsin

A late afternoon and evening snowstorm on December 23rd dumped wet, heavy snow in north central Wisconsin, disrupting electricity to nearly 30,000 Wisconsin Public Service customers. The primary cause of the many outages was tree branches breaking from the weight of the snow and falling on power lines. The outages were mainly single-premise outages, making restoration difficult and time consuming. Public Service called in all available crews and received assistance from Wisconsin Power & Light and Madison Gas & Electric. Approximately 90 crews worked to restore power. The Wausau and Stevens Points areas were hardest hit.

MGE Seeks Baseload Power Supply

Madison Gas and Electric is issuing a Request for Proposal for up to 100 megawatts of baseload capacity beginning as early as 2011. MGE estimates baseload power needs to increase 10 MW annually. The company will consider an equity ownership, a purchased power agreement (PPA) or a PPA with an option to acquire ownership in a facility. PPA proposals will have terms ranging from 10 to 30 years. Final bidder selection will be on or before April 27, 2007.



WUI Board to Hold First 2007 Meeting on January 18th in Fond du Lac

The Wisconsin Utility Investors Board of Directors will meet January 18th in Fond du Lac, Wisconsin, to formulate and complete plans for activities and investor action during 2007. Board Chairman Roger Cole and board members expect investor's involvement in state and national policymaking to be more important than ever with significant tax and environmental issues taking the forefront. WUI will be letting members know about these issues as they arise and giving them an opportunity to have input into the process.

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