



THE INVESTOR'S VOICE

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IN THIS ISSUE

New Type of Environmental Financing Sought by Wisconsin Energy	1
Energy Impact Legislation Moves Ahead	2
Bill Lifting Nuclear Moratorium Approved by Assembly Committee	2
WUI Board To Meet March 25th	2
Alliant Energy Announces Executive Appointments	3
Further Changes in Bill Returning Utility Taxes to Local Governments	3
Madison Gas and Electric Madison Plant Well Underway	4

New Type of Environmental Financing Sought by Wisconsin Energy

At the request of Wisconsin Energy Corporation, companion bills have been introduced in the Wisconsin Legislature that would allow utility companies to use a new method to finance environmental upgrades. The two bills, AB 843 and SB 463 are authored by Representative Scott Jensen and Senator Robert Cowles, respectively chairmen of the Assembly and Senate Energy Committees. This type of financing, commonly referred to as securitization, has generally been used as a means of eliminating "stranded costs" (debt the companies hold) in states that have deregulated their utilities. The Wisconsin Energy proposal, however, has nothing to do with deregulation.



Larry Salustro

Called Environmental Trust Financing, the proposal would allow utilities to seek approval from the Public Service Commission of Wisconsin (PSCW) to create an Environmental Trust that can issue bonds to finance specific environmentally related expenditures when the commission determines that the improvement costs are prudent and where the Environmental Trust mechanism will reduce the financial impact to the consumer. Larry Salustro, We Energies General Counsel and Senior Vice President said, "When compared to traditional financing, the Environmental Trust Financing approach results in significant savings to customers and an opportunity to finance environmental improvement projects without affecting a company's credit rating."

The bonds would be backed by the PSCW's financing order, which would allow for a specific charge on an electric bill to finance the repayment of the bonds. Once authorized, that approval could not be rescinded. Typically, a combination of debt and equity would be used to finance the capital expenditures required for pollution abatement. The utility would then be entitled to a return on that investment through the rates it charges its customers. Since the return required on equity is typically higher than the return on debt, possibly twice as much or more, using a combination of debt and equity, as is currently done, is more costly to utility customers than financing entirely with debt.

The legislation would enable electric utility companies to finance environmental control costs through the sale of statutorily created "environmental control property" to a special purpose affiliate and the issuance by the affiliate of debt which would be rated by the rating agencies higher than the direct debt of the utility (thus it could be issued at a lower cost). The security provided by these revenues authorized under a PSCW financing order would enhance the credit quality of the debt and lower the interest rate that would be paid. Wisconsin Energy estimates that on a purchase of \$1 billion of environmental control equipment, the trust financing would save customers \$500 million over 10 years.

The proposal, which has had hearings in both the Assembly and Senate Energy and Utilities Committees, has not been without controversy. Other utility companies have had concerns that too widespread a use of such bonds could lead to decreased earnings. Although the legislation does not mandate the use of these bonds, some critics have argued that the proposal amounts to a

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Bill Lifting Nuclear Moratorium Approved by Assembly Committee

Assembly Bill 555 removing impediments to the consideration of the construction of new nuclear power plants in Wisconsin has received positive executive action in the Assembly Energy and Utilities Committee. On February 10th, the committee approved sending the proposal forward on a 9-3 vote. The legislation, introduced by Representative Michael Huebsch (R-Onalaska), is supported by Wisconsin Utility Investors. Representative Huebsch said, "The debate on the future of nuclear power in Wisconsin has now begun in earnest."



Representative
Michael Huebsch

Energy Impact Legislation Moves Ahead



Senator Robert Cowles

Senate Bill 113, introduced by State Senator Robert Cowles (R-Green Bay) and others would have required that an energy impact report be prepared on each legislative proposal that could affect energy policies. The original bill would have required the Wisconsin Department of

Administration to file such a report within 30 days after introduction. The report would have evaluated the generation, transmission and distribution of electric power and natural gas and the reliability of the electric power and natural gas supply. It would also have considered the mix of fuels, energy conservation, environmental impacts and the development and availability of energy produced from renewable resources.

Because of potential problems in the draft, Wisconsin Utility Investors did not take a position on the original bill. For one thing, it was felt that the Public Service Commission (PSCW) should be responsible for the reviews rather than the Department of Administration, which, as an executive agency, could be subject to political pressures. WUI also felt the scope of the review was far too broad. In response to these concerns, Senator Cowles has now introduced a Substitute Amendment that addresses them in a way satisfactory to WUI and others. The new draft limits the scope of the reviews to cost and reliability, and gives the responsibility for writing the report to the PSCW.

...Continued (Financing)

slippery slope and that other utilities might feel it necessary to use the device to remain price competitive. In order to alleviate these concerns, Wisconsin Energy has agreed to modify the proposal in several ways to narrow the scope and limit the types of environmental projects that would qualify.

The company admits that Environmental Trust Financing may be good for some companies but not for others. On the beneficial side, a company would not have to commit equity for equipment purchased nor would the financing affect the utility's ability to borrow dollars for other projects. This would help to keep a utility's credit rating strong. This is particularly important to Wisconsin Energy which is embarking on a \$7 billion Power the Future building program. On the other hand, earnings will be reduced (and thus shareholder returns) as compared with traditional financing.

WUI Board To Meet March 25th

The Wisconsin Utility Investors, Inc. Board of Directors will meet in Glendale on March 25th to review progress of the newly invigorated organization. Among the items to be considered will be plans for regional meetings to be held around the state in the spring and summer months. The programs will include speakers discussing current legislative and regulatory issues of concern to shareholders, as well as status reports about the activities of the utility serving the area. Members within convenient driving distances will receive personal invitations to the

Alliant Energy Announces Executive Appointments



William D. Harvey

Alliant Energy Corporation has announced a number of executive appointments. The company is making organizational changes to focus on stronger operational and financial results. In November, 2003, Alliant Energy announced that William D. Harvey would assume the role of President and Chief Operating Officer. Also in December, the company announced that Eliot G. Protsch, who previously served as Executive Vice President of Energy Delivery, would assume the role of Senior Executive Vice President and Chief Financial Officer. Harvey has now assumed responsibility for all operational areas within Alliant Energy. However, the financial area, as well as the strategic and other corporate functions, will continue to report to Alliant Energy Chairman and CEO Erroll B. Davis, Jr. Additional new appointments include the following:

Thomas L. Aller, 54, has been named Senior Vice President of Energy Delivery, reporting to Harvey. Additionally, Aller will now take on the role of President of Interstate Power and Light Co. (IP&L), Alliant Energy's Iowa utility subsidiary.

Timothy R. Bennington, 59, will now assume responsibility for the utility generation activities of both IP&L as well as Wisconsin Power and Light Co., the company's Wisconsin utility subsidiary.

Christopher J. Lindell, 48, is promoted to Vice President of Shared Services. In his new position, Lindell is now charged with heading the company's support services, including Sourcing, Human Resources, Environmental & Safety Compliance, Information Technologies, Labor Relations and Document Management.

Theresa M. Mulford, 46, has been appointed Vice President - Regulatory Affairs. Mulford, who previously served as Managing Director of Regulatory Relations and Restructuring, will continue to oversee regulatory activities across Alliant Energy's four-state utility service territories and will assume responsibility for the utilities' energy-efficiency/demand-side management programs.

Further Changes in Bill Returning Utility Taxes to Local Governments



Rep. Scott Jensen

The February issue of the WUI Legislative/Regulatory update discussed a new bill, AB 774, introduced by Assembly Energy and Utilities Committee Chairman Scott Jensen, which would make further changes in the state's shared utility tax structure. While supporting the concept, WUI and others have raised concerns about certain components of the legislation. In short, the bill would remove general structures (office buildings) and substations from the sharing formula which returns about 20% of a utility's gross receipts taxes back to a municipality and county, and instead allow them to be taxed under the local property tax. To offset the greatly increased tax the utility would be required to pay, it would be allowed a credit against the gross receipts

taxes it pays the state. However, in some cases, the credit would be larger than the gross receipts taxes owed, thus the utility would lose money. A substitute amendment being proposed attempts to deal with this issue by allowing the credits to be carried forward into future years. Unfortunately, if a utility's credits continued to exceed their gross receipts taxes indefinitely, it would never be made whole. A second problem was that many municipalities would have lost money when shifting the sharing basis for generating plants from value to generating capacity. This is corrected in the substitute amendment by adopting a hold harmless device ensuring that no municipality would get less under the new system than they would have under the old one.

Because of the large fiscal note attached to this measure, it is expected to have tough sledding in view of the state's difficult financial condition.



If you are a shareholder in a Wisconsin utility company, but not a dues paying WUI member, please consider making a contribution today. Politicians and regulators are making decisions every day that affect the value of your investments. By contributing to WUI, you will help make your opinions as a utility stockholder clear to those decision makers and better, more investor-friendly public policy will result. For Wisconsin utilities to thrive and grow, utility investors must play an active role in educating the public, regulators and legislators about the importance of a healthy utility industry.

Please send \$15, or whatever you feel you can, to:

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MG&E Madison Plant Well Underway

Madison Gas and Electric (MGE) has made substantial progress on the West Campus Cogeneration Facility since construction began in October of 2003. The plant will produce up to 150 megawatts of electricity for MGE customers and expand heating and cooling capacity for the University of Wisconsin-Madison (UW). Construction costs are estimated at \$180 million.

Wisconsin Governor Jim Doyle and UW Chancellor John Wiley attended the groundbreaking ceremony. The governor said, "MGE's West Campus Cogeneration Facility provides the infrastructure needed to support the state's and university's investment in Wisconsin's future." Wiley pointed out more than 1.8 million square feet of new buildings are planned on campus in the next five years. "Without the new cogeneration plant, we would run out of steam heat and chilled water capacity in 2005," he said.

MGE Chairman, President and CEO Gary Wolter noted the natural gas-fired facility "will be one of the cleanest, most efficient plants in the Midwest when it starts operating in 2005." MGE and the UW worked closely with the community to take steps beyond current regulations to protect the environment.



Contractors installed combustion and steam turbines plus steam generators in the first five months of construction on MGE's West Campus Cogeneration Facility. The site is located next to a UW heating and cooling plant.

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