

PSC issues long-awaited written order in update to municipal utility parallel-generation tariffs



The Public Service Commission of Wisconsin (PSCW) on April 6 issued a Final Decision in the application of Sturgeon Bay Utilities (SBU) to update its parallel generation (PG) tariffs. The written order me-

morializes the PSC's June 19, 2025, open meeting discussion of the matter, concluding an arduous, nearly three-year journey that encompassed contentious discovery battles, the recusal of Commissioner Nieto, a formal reopening to gather additional evidence, and two public hearings. The long-awaited decision largely grants SBU most of what it was looking for in its original August 2023 filing (docket 5780-TE-111).

Specifically, the Commission authorized SBU, among other things, to use (i) three-year historical seasonal averages of day ahead locational prices from the Midcontinent Independent System Operator (MISO) as the avoided energy cost component for all of its PG tariffs; (ii) 100 percent of net Cost of New Entry (CONE) from MISO for customers that enter into long-term contracts for front-of-the meter installations under the PGS-2 tariff; (iii) MISO seasonal planning resource auction (PRA) pricing for behind-the-meter installations under the PGS-2 tariff, to be converted to a \$/KWh capacity credit; (iv) a placeholder value of \$0 for the avoided transmission capacity cost component; and (v) a legacy period of 10 years from the date of the Final Decision for existing PGS-1 tariff customers.

The SBU decision stands as the first successful application to update the PG rates of a municipal utility following the Commission's investigatory docket (5-EI-157) launched in June 2020. As such, the decision has enormous significance for MEUW members because it establishes clear precedent for PG methodologies that are more uniquely suitable for municipal utilities.

Most notably, the decision firmly establishes the principle that it is reasonable to allow a public utility that does not generate its own power or directly participate in the MISO markets to calculate its avoided costs for parallel generation by utilizing the avoided costs of its wholesale supplier. Indeed, many of the evidentiary issues that complicated the proceeding derived from efforts undertaken by WPPI Energy to explain the nature of the full-requirements service it provides SBU.

In addition, the decision constitutes firm precedent for the reasonableness of utilizing historical averages to calculate both avoided capacity and energy costs, and it expressly rejects the idea of using the base cost of power (or U-factor) as an acceptable, albeit higher, cost proxy for establishing avoided energy and capacity costs for municipal utilities — for which staff and

intervenor witnesses had advocated as a means of “simplifying” the calculation of PG buyback rates.

The proceeding also forced the PSC to grapple with the administrative reality that municipal utilities — unlike investor-owned utilities (IOUs) — are not on a regular two-year rate case cycle, or subject to annual fuel plan requirements and rate-case filing guidelines used as the basis for forecasted PG methodologies like those the PSC approved for IOUs. In that way, the SBU decision plugs a gap left by the PSC's orders in 5-EI-157 that did not explicitly apply to municipal utilities.

Forced to acknowledge the differences between municipal utilities and IOUs, the PSC opted to impose several annual compliance conditions, including a requirement that SBU work collaboratively with PSC staff to establish the timing of annual PG rate updates, as well as a requirement that WPPI verify on an annual basis that it purchases all the excess generation from PG customers in the SBU service territory — a commitment WPPI made during the hearing that proved to be decisive.

The PSC rejected WPPI's request to delegate future PG tariff amendment applications from WPPI member utilities — and use the same methodologies approved by the PSC in the SBU proceeding — to avoid the need for separate hearings for each of those applications. As a result, WPPI members and other similarly situated municipal utilities will not be able to utilize the procedure agreed upon by PSC staff and representatives of MEUW and WPPI in 2024 that had been intended to provide an administratively efficient way to amend municipal PG rates following the PSC's investigation in docket 5-EI-157.

Notwithstanding its paramount value, the SBU decision is a reminder that MEUW and its members have more work to do to educate the PSC when filing special tariff applications on PG and other service-related areas. The hope is that over time the PSC will develop a more normalized understanding of municipal utilities and require less time to issue municipal utility-related decisions.

— Richard Heinemann, Boardman and Clark