



Public Service Commission of Wisconsin

Ave M. Bie, Chairperson
Joseph P. Mettner, Commissioner
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610 North Whitney Way
P.O. Box 7854
Madison, WI 53707-7854

November 16, 1999

Mr. Peter Newman, Manager-Gas Supply
Wisconsin Gas Company
626 East Wisconsin Avenue
Milwaukee WI 53202

Re: 6650-GP-101 Request to Revise Gas Supply Plan

Dear Mr. Newman:

By an application dated April 12, 1999, Wisconsin Gas Company requested approval of a change to its three-year gas supply plan. The change involves a contract on the proposed Guardian Pipeline.

Your request is granted conditionally. The contract with Guardian is a reasonable addition to the gas supply plan if: (1) the Commission authorizes the construction of the associated lateral, and (2) the Commission approves an affiliated interest agreement between Wisconsin Gas Company and Guardian Pipeline. The basis for the approval is contained in the attachment to this letter.

If you have any questions regarding this approval, please contact Dennis Tuohy at (608) 267-9159.

Sincerely,

Anita Sprenger
Administrator
Natural Gas Division

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Attachment

Attachment

Summary of PSC Analysis of Request by Wisconsin Gas Company to Modify Its 1998-2003 Gas Supply Plan

On March 15, 1999, a consortium consisting of WICOR, Inc. (WICOR), CMS Energy, and Viking Gas Transmission announced plans to construct an interstate pipeline that would provide service to southeast Wisconsin. The Guardian Pipeline (Guardian) would begin at the Chicago-Joliet Hub and terminate at Watertown, Wisconsin. It would provide between 750,000 and 1,200,000 Dth/day of capacity to customers along its route.

On March 9, 1999, Wisconsin Gas Company (WGC), a subsidiary of WICOR, entered into a precedent agreement with Guardian for 650,000 Dth/day of pipeline capacity. The term of the agreement is 10 years. WGC is asking for approval of the agreement with Guardian as an addendum to its current natural gas supply plan (supply plan).

If the WGC contract is approved, it is likely that the following benefits will flow to Wisconsin consumers:

- Guardian would result in substantial gas cost savings to WGC sales customers over the life of the pipeline.
- Guardian would provide net benefits to WGC transporters as well.
- Guardian could also provide benefits to the sales and transportation customers of other utilities that might connect with Guardian.
- Guardian would provide the infrastructure that would provide Wisconsin with a competitive alternative in the market for interstate pipeline capacity.
- Guardian would enhance the reliability of the interstate pipeline system serving the state, thereby improving the reliability of the state's natural gas system for residential and commercial customers, as well as for the state's gas-fired electrical generators.

Benefits to WGC Sales Customers

Revenue requirement analysis suggests that Guardian will save WGC sales customers millions of dollars in present value terms over the life of the pipeline. This alone allows one to conclude that WGC's selection of the Guardian contract over other options is a reasonable and prudent decision. Consideration of other factors provides further support for the Guardian contract. For example, the terms of the Guardian contract explicitly state that the rates charged to WGC are not subject to change over the life of the contract. Other offers contain no such guarantee. This price certainty afforded by the Guardian contract provides additional real, albeit difficult-to-quantify, economic value to WGC.

Guardian as a Long-term Investment in Utility Infrastructure

Pipelines form the backbone of the state's natural gas infrastructure, much as highways do for the state's transportation system. Since they are long-lived assets, pipelines also provide service to future generations as well as to current ones, again much as highways do. Using a long-term economic perspective, the present value of the savings from Guardian are even greater than those considered under a shorter-term perspective. This reinforces the conclusion that the selection of the Guardian alternative is reasonable and prudent.

Impacts on Other Parties

The summary above considers net benefits to WGC sales customers only. Transporters on the WGC system would benefit from Guardian. These customers today use 40 percent of the gas delivered by WGC, so the net present value analysis discussed

above considers only a little more than half the affected load on the WGC system. The analysis discussed above, therefore, understates the true net benefits of Guardian. This again provides additional support for the Guardian option.

Furthermore, both sales and transportation customers of neighboring utilities (*i.e.* other than WGC) could benefit if those utilities connected with Guardian. Both of these items suggest that although the benefits to other parties are difficult to quantify, the total potential benefits from Guardian are higher than initially estimated.

On the other hand, there are parties that might not benefit from Guardian, at least not in the short run. These would be the utilities that are served by other pipelines and that would not have access to Guardian. It is possible that these pipelines could attempt to shift costs to these utilities to make up for revenue lost when WGC moves much of its load to Guardian. The potential for cost shifting is limited, however, by market forces, *i.e.*, if the pipelines shift too many costs to these utilities, new pipelines may spring up to serve those utilities.

Guardian as a Competitive Alternative

The potential benefits of Guardian discussed above reflect the benefits of competition. If Guardian is not built, WGC may be faced with the unenviable prospect of being served indefinitely by one dominant pipeline. ANR Pipeline currently supplies about 85 percent of WGC's pipeline capacity. The construction of Guardian would provide a true competitive alternative to ANR.

Promoting competition solely for competition's sake alone is not good public policy. A competitive pipeline alternative should be expected to produce net benefits relative to

maintaining the *status quo ante*. As discussed above, it is highly likely that Guardian would produce such benefits.

The Window of Opportunity for Constructing Pipeline Capacity to Serve Wisconsin

It is much more difficult today to site and construct new interstate pipelines than it was when most interstate pipelines in Wisconsin were constructed many decades ago. Land use concerns often dominate public hearings on pipeline projects. Rights-of-way costs are escalating noticeably as the choice of alternative routes is narrowed. These factors make approval and construction of new pipelines become more difficult in the future.

If a new pipeline is not built in the next few years, the window of opportunity will close for at least several years as Wisconsin LDCs renew their contracts with existing pipelines. At the conclusion of that period it may no longer be possible to build another pipeline through the congested Northern Illinois-Southeast Wisconsin area. That means that if Guardian looks like an attractive option, which it does, then it should be selected now for it or something like it may not be available at a later date. This again compels one to select Guardian as the preferred option.

Reliability Issues

Adding new capacity that is independent of existing pipeline capacity enhances the physical reliability of natural gas service in Wisconsin. The existing pipelines serving the state have provided reliable service to date. Nonetheless, having another pipeline serving Wisconsin improves reliability. No one knows when or where there will be a *force majeure* situation on one of the existing pipelines. Guardian would help to ensure that customers ranging from residences to large factories have reliable gas service year round.

Guardian also could help to improve the reliability of the state's electrical system by increasing the capability to deliver gas to the state's gas-fired electrical generators. That will be critical as the state adds relatively large amounts of such generation over the next decade.

Conclusion

The potential benefits of Guardian far outweigh its cost. This is true over a continuum of scenarios from the narrowest, which considers only WGC's sales customers, to successively broader perspectives that consider the benefits to other groups of customers that could be served by Guardian. WGC's supply plan addendum should, therefore, be approved.

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