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The Honorable Alberta Darling, Co-chair
Joint Committee on Finance
317 East, State Capitol
Madison, WI 53702

The Honorable Dean Kaufert, Co-chair
Joint Committee on Finance
308 East, State Capitol
Madison, WI 53702

Dear Senator Darling and Representative Kaufert:

On Friday, May 9, 2003, Department of Administration Secretary Marotta forwarded to your committee the state's request for funding to build a 150 MW electric power plant in a partnership between UW and Madison Gas and Electric. This recommendation flies directly in the face of at least five independent reports from two different state consultants, all of which found a UW-owned 45 MW power plant to be the far preferred alternative by an amount around \$200 million nominal dollars. Only after the close of the public process were MGE and UW, in secret and using unsupportable assumptions, able to close the differential to a "mere" \$70 million. Even though the state's consultant rejected those assumptions, this is the figure Secretary Marotta relies on.

The premise for the project is UW's need for some additional steam and chilled water in the next several years and MGE's alleged need for additional electric capacity. Its basic terms are that the state will commit a prime 4 + acre building site and half the capital costs, \$90 million, with MGE putting up the other half.

MGE will be the sole owner and operator of the facility, at least for the first three years, and will sell UW power and steam.

Is this a good deal for the state, facing a fiscal crisis of monumental proportions? Secondly, is this good utility planning?

A GOOD DEAL? IF SO, FOR WHOM?

For \$50 Million Investment, State Could Own 45MW Plant

Assume for the moment that UW's demand estimates are correct, i.e., that its utility need is unaffected by changes to the campus building schedule brought on by other constraints in the budget. UW-Madison now pays \$16 million/year to MGE for its utilities. It needs a small increase in steam and chilled water in the next few years. In the long run, the entire campus will use about 55 MW of power.

So why isn't UW building its own 45 MW facility? (Charter and Walnut St plants complete the utility output, both located nearby to our neighborhood, by the way.) Universities all over the country have done exactly that. And they've constructed these state of the art cogeneration plants for half what has been suggested here. UW's 45 MW plant would cost about 50 million not the wildly inflated figure of 120 million touted by MGE/UW.

But consider this: Even assuming the gross estimate for a UW-owned plant is correct, the DOA's consultant in its report of 4/28/2003 concluded that UW -- and by extension, the state's taxpayers -- will pay over \$200 million more dollars (\$50 million in today's dollars) for the 150-MW proposal than the 45-MW proposal.
<http://www.madison.com/archives/read.php?ref=tct:2003:04:28:265700:FRONT>

Worse, under the plan before you, in three years, UW has the option to buy out 45 MW from MGE. After putting up 90 million, UW gets to pay even more? But more important, if UW is putting up half the capital in the first place, why isn't it already entitled to half the output, i.e., 75 MW equivalent?

\$90 + Million Investment in MGE Buys Access to Overpriced Steam

Outrageously, even with this massive investment, UW will still have to pay MGE exorbitantly high rates for steam and only a discounted rate for electricity. Cogenerated steam is a byproduct of electric generation and is therefore

economically attractive; this fact can be verified at other campuses with cogeneration plants. However, a group of UW's own graduate students discovered that MGE's charges for steam have been marked up to produce \$140 million to \$192 million in overcharges to UW.

(See

<http://www.madison.com/archives/read.php?ref=tct:2003:04:23:265093:EDITORIAL>)

Perhaps the terms of the arrangement have changed since the close of public comment and review. But what hasn't changed is the fact that the state is going to overpay and thus underwrite MGE, an investor-owned utility. The PSC estimates, as detailed in the draft EIS, that MGE rates will rise at least 7 _ %, so we know its not the MGE customers who will benefit from this deal.

Greatest Reliability Comes From 45MW

Reliability is often argued as the best reason for this arrangement. But doesn't owning its own plant offer UW the greatest security? One of the most outrageous statistics to surface in the "re-working" of the consultant's report after the close of the public comment period was the MGE estimate for what it would charge UW for back-up power, for being there in the event UW's system went down. Again, checking what other campuses pay for back-up power yields figures in the range of \$1.40 (U of Minn) to 3.00, not the hysterical rate of over \$5.00 suggested here.

So who benefits? The MGE investor, that's who. Taxpayers and ratepayers will pay more, plain and simple.

IS THIS GOOD UTILITY PLANNING?

MGE Has Ample Capacity Now and in the Future

The purported beauty of this partnership is that in building one plant, both UW and MGE's needs are met, forget about the fact that UW will pay significantly more for this project than if it built its own. What is assumed is that MGE actually needs this additional capacity. Currently, MGE has excess capacity, holding more than 20% in reserve, an excess over what is required. Indeed, MGE has contracts to sell 25

MW right now. But what about growth? Estimates again should be corrected to account for shifting realities, 2% rather than the 3% growth estimates MGE has banked on.

But assume for argument's sake that MGE really does need an additional 300MW of capacity, as it claims. Will it truly have to build a new plant if the state decides it can't afford to fund this project?

The short answer is no. MGE has a 150MW stake in the Oak Creek project and at least 100 MW in the Beloit plan, both working their way through the approval process. That leaves them about 50 MW short, you might think. Not if you add in the 45 MW if UW built its own plant. Here's how: UW is their single biggest customer and if UW took care of its own needs, the capacity gap shrinks to almost zero.

Throughout its advertising campaign, MGE has stated that it "imports" 85% of its power from outside Dane County. As it turns out, the majority comes from Portage, in adjoining Columbia County, and arrives in Madison on a dedicated 345kV line. The rest of its power comes from mostly MGE-owned/partnered sources in the state that are not imperiled by transmission line concerns.

MGE Should Clean Up and Add Capacity to Blount St

Then consider this—MGE has about 220MW of capacity at its Madison Blount St station which it does not run at even close to full bore, because it's cheaper to get power from other sources and because it's an old, dirty, inefficient plant. Why doesn't MGE clean up and add capacity to Blount St? All the transmission lines and other support features are in place there, an advantage argued repeatedly for the UW site. Critically, if MGE were to upgrade this antiquated plant, the state's dirtiest and oldest, according to County Executive Falk, even with additional usage, the net overall effect for Madison's air quality would be improved.

No Delay: UW-Owned Plant Does Not Require PSC Review or Lengthy Planning

Another argument in favor of moving forward with this expensive plan before you is that it is already in the regulatory pipeline; UW cannot afford to delay. But regulatory review will not hold up a smaller project. If UW were to build its own plant under 100 MW in size, there is no PSC involvement at all. DNR would still

have to issue air and water permits, but its willingness to do this already for a plant three times the size signals that getting those permits would be no problem.

Another argument you'll hear is that all the planning has been done for the MGE proposal. This too is bogus. Universities all over the country have built these plants and there are consultants chomping at the bit to adapt those existing plans to best fit UW's needs, indeed competitively bid for the right to do so. These things are built from components engineers know and understand; they are not built from scratch. If directed to build its own, UW could have it up and operating well within the time it says it needs the additional steam and chilled water.

Campaign Finance Reform and Conflicts of Interest

Vice-Chancellor Al Fish was the UW manager for the review culminating in Secretary Marotta's recommendation on Governor Doyle's behalf. Mr. Fish's boss, Chancellor Wiley, has worked tirelessly to get this MGE project approved. Mr. Fish's wife happens to be Governor Doyle's chief of staff.

Finally, it bears mentioning all the money that has changed hands. MGE donated over \$170,000 to Sen. Chuck Chvala or to organizations of his liking, e.g., the Kansas Democratic Party. Sen. Chvala is currently under felony indictment and these contributions are detailed in the complaint against him. Sen. Chvala was responsible for the budget amendment requiring UW to negotiate with MGE for the construction of the 150 MW plant.

SUMMARY

It falls to you, our legislators, to choose wisely what projects to fund, all the more so at a time when there is so little money to provide even the most basic of government services. UW has to live with cuts of \$250 million, cuts that will have immediate and significant consequence on campus research and instruction. Undergraduates bear the brunt, with fewer classes offered and tuition set to rise 18%. For families struggling to give their children access to the world-class education UW provides, this is no trifling matter. And that's not the end of it---UW proposes to recoup some costs of its MGE venture through the rates it charges campus customers; this means dormitory board rates will also go up.

Indeed, all taxpayers will end up paying far more than they reasonably should to provide UW with its utility services. So will MGE ratepayers.

MGE and UW would have you dismiss us as disgruntled neighbors who don't want a power plant in their backyard. First off, we've never opposed a project sized to UW's needs. Second, we already have three power plants in our immediate vicinity. Admittedly, it was the significant impact on our beloved city that really got our attention, that got us to look behind the "natural gas, cogeneration" public relations buzz. None of that changes the lousy deal this is for the state and its taxpayers. MGE/UW's charge of NIMBYism is simply a distraction from the realities of this cash cow for MGE investors.

We know time is short, but we will all live with and pay for this plant for many years to come. This isn't a program you can chose to cut now and resurrect at a later day--this is for keeps.

If nothing else, this proposal deserves a full airing, perhaps as a separate budget item. An audit would make the most sense. You deserve the best quality information before you make this decision. Don't worry, UW will still get its steam in time. Please take the time to weigh this carefully. Indeed, honest, publicly accountable government requires nothing less.

Sincerely,

Joan M. Knoebel and Michael J. Cullenward