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April 27, 2001

Re: Wisconsin Public Service Corporation and
Upper Peninsula Power Company
MPSC Case No. U-12650

Dear Ms. Wideman:

Enclosed for filing is an original and four (4) copies of Rebuttal Testimony of William L. Bourbonnais on behalf of Wisconsin Public Service Corporation and Upper Peninsula Power Company. Also enclosed for filing is an original Proof of Service. An electronic filing is also being made.

Very truly yours,

Sherri A. Wellman

Sherri A. Wellman

SAW/kkf
Enclosure

S T A T E   O F   M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

*** * * ***

In the matter of the application of	)	
WISCONSIN PUBLIC SERVICE CORPORATION	)	
and **UPPER PENINSULA POWER COMPANY**	)	Case No. U-12651
for approval of its plan for implementation of	)	(e-file)
2000 PA 141.	)	
______________________________________	)	

<u>PROOF OF SERVICE</u>

Kelly K. Fitzgerald, employed at Loomis, Ewert, Parsley, Davis & Gotting, P.C., being duly sworn, affirms that on this 27th day of April 2001, she served a copy of **Rebuttal Testimony of William L. Bourbonnais on Behalf Wisconsin Public Service Corporation and Upper Peninsula Power Company** in the above referenced matter upon the following persons on the attached Service List via first class mail.

Kelly Kay Fitzgerald

Kelly Kay Fitzgerald

Subscribed and sworn to before me on this 27th day of April, 2001.

Brandy L. Parker

Brandy L. Parker, Notary Public
Eaton County, Michigan
My Commission expires: May 30, 2004
Acting in Ingham County

WISCONSIN PUBLIC SERVICE CORPORATION AND
UPPER PENINSULA POWER COMPANY

SERVICE LIST
MPSC CASE NO. 12650

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______________________________________	)	

Rebuttal Testimony of
William L. Bourbonnais

On Behalf of:

WISCONSIN PUBLIC SERVICE CORPORATION AND

UPPER PENINSULA POWER COMPANY

Filed: April 27, 2001

Rebuttal Testimony of William L. Bourbonnais

Q: Please state your name and business address.

A: William L. Bourbonnais. My business address is 700 North Adams Street, Green Bay, Wisconsin.

Q: What is your position with Wisconsin Public Service Corporation?

A: I am the Manager and Economic Evaluation.

Q: What is your experience and involvement relating to implementation of customer choice in Michigan?

A: Wisconsin Public Service Corporation ("WPS Corp") and Upper Peninsula Power Company ("UPPCO") jointly referred to as the ("Companies") are sister corporations. I am actively involved on behalf of WPS Corp and UPPCO in the implementation of customer choice in Michigan, including work on development of the proposed retail access service tariff, determination of appropriate business practices for customer and supplier interfaces and other internal activities necessary for an effective customer choice program. My overall experience and qualifications are summarized in my Qualifications and Testimony filed in this case on February 20, 2001.

Q: Please summarize the purpose and scope of this rebuttal testimony.

A: The purpose of my testimony is to respond to the major issues raised by other parties, primarily the Commission Staff, in testimony and exhibits filed on March 19, 2001. Because of the Administrative Law Judge's ruling on Staff's Motion to Strike, WPS Corp and UPPCO will not respond to any of the evidence which was stricken, including all of the testimony and exhibits of Martin G. Kushler, and Geoffrey C. Crandall and part of the testimony and exhibits of Ronald C. Callen. The Companies will respond to the excluded evidence only if the ruling to strike it is later reversed.

A. Testimony and Exhibits of Ronald C. Callen

Q: Have you reviewed the part of the testimony and exhibits of Ronald C. Callen which was not stricken?

A: Yes

Q: What is your understanding of Mr. Callen's proposal?

A: Mr. Callen proposed that the Commission consider adopting tariff provisions in this case which, among alternatives, include a non-bypassable customer line charge for nuclear decommissioning costs. Alternatives include making sure that decommissioning charges apply to standby customers or customers who return from open access service.

Q: Does WPS Corp have a position regarding the provisions for nuclear decommissioning charges?

Yes. Nuclear decommissioning charges are included in WPS Corp's existing rates and are associated with the nuclear component of WPS Corp's electric generation resource mix. Logic would suggest that the decommissioning charges should be included in the unbundled generation service component of the WPS Corp's rates. In that case, a customer who switched to an AES would no longer be responsible for continuing to contribute to the Companies decommissioning fund.

As a matter of public policy, however, the decommissioning charges may be viewed as intended to benefit all of the public, not just specific utility customers. In addition, customers who switch to an AES have already benefited from the low-cost nuclear power produced in the years prior to switching, and the decommissioning fund is a part of the overall costs from which the benefits were derived. Concerns have been expressed by some that allowing bypass of nuclear decommissioning costs might reduce the size of the fund in the long run. WPS Corp will address this concern by including the decommissioning charges as part of the distribution component of our unbundled retail open access tariffs. This will effectively make the charges "non-bypassable" because all customers will continue to pay these distribution charges, including those customers who obtain generation service from an AES. The unbundled tariff filed on June 5 will include this provisions.

Q. Does UPPCO have a position regarding the provision for nuclear decommissioning charges?

A. UPPCO believes that such recommendations regarding nuclear decommissioning, as they relate to UPPCO, are inappropriate. UPPCO does not own or operate any nuclear power plants and has no decommissioning charges in its rates. Mr. Callen's proposals do not apply to UPPCO.

B. Testimony and Exhibits of Paul A. Carlson

Q: What is your Companies position concerning the matters raised by Staff witness Paul Carlson?

A. Mr. Carlson's proposals are contained in Exhibit S-___ (PAC-2), which consists of a copy of the draft retail access service tariff filed by the Companies on February 20, with certain added and deleted items indicated. Before addressing the specific items, I must comment on the continued development of the open access tariff. The Michigan Electric and Gas Association working groups are continuing to modify the draft tariff based on input from many sources and Mr. Carlson's review and comments were found to be very helpful in this ongoing process. Due to the complexity of this effort, our work on the tariff is ongoing. Although we plan to have an almost completed version ready for filing on June 5, it should be noted that the retail access service tariff can not be finalized until the Commission acts on several outstanding dockets that it has initiated (such as the Slamming/Cramming docket (U-12640)). Many of the issues, if not all of them, can be resolved well before the implementation date of January 1, 2002. However, due to these uncertainties, at this time, the tariff remains a work-in progress.

Q: Do you intend to respond to the proposed changes of Mr. Carlson?

A: Yes. We appreciate the detail of Mr. Carlson's work and many of his suggestions will be adopted or reflected in the Companies' ultimate tariffs. In this testimony, I will address the major differences of position between the Companies and Staff and respond generally to the Staff's position.

Q: The Staff policy consideration was stated as the avoidance of tariff terms and conditions which would act to discourage customers and AES's from participating in open access. Do you agree this is an appropriate policy?

A: Yes, with the following added provisions. The terms and conditions of retail open access should be fair, reasonable and prudent from the standpoint of all stakeholders, including the incumbent utility, alternate suppliers, customers who choose an AES, and the customers who continue to rely on the utility's generation. It is important to balance these competing interests, rather than adopting provisions which favor one particular interest over the other interests. We approached the drafting process with this balancing in mind. We disagree with Mr. Carlson on a few critical items, but in general his comments are reflective of this same balance, subject to the following comments.

Q: What are the major differences you have with Mr. Carlson's proposed tariff changes?

A: There are two issues where we believe a more balanced approach should be taken. We believe that the Companies' original draft tariff proposal concerning "return to utility service / default service" represented a reasonable balance of the various interests. We are concerned, however, that Staff's comments may not fully recognize the inherent risks and potentially significant and severe financial impacts, on the incumbent utility, as well as customers who choose not to switch to an AES, of customers returning to utility service after initially switching to an AES. Additionally, the Staff change on creditworthiness should be slightly modified.

Q: Please elaborate regarding the default service issue.

A: In Tariff Section 2.6 we proposed to allow any Customer to return to Full Requirements Service at any time; however, if the Customer returned to the utility service within the 6-month notice period, then it would be served under Default Service for up to 6-months, before being returned to Full Requirements Service. Under Default Service, the Customer would pay the Companies top incremental cost for Power.

This provision was included, not to discourage choice, but to protect the Companies and other customers who do not switch to an AES from the potential adverse effects of customers suddenly switching back at times of high market prices, or sudden "drops" of customers by an AES. If the Companies had to procure supplies of power on the wholesale market to serve returning customers at times of high market prices, it could be forced to serve the returning customers at a loss if the normal regulated rate applied, similar to the recent conditions in California. That loss, due to actual incurred higher power supply costs, would either be borne by the Companies' shareholder or it would be socialized to the remaining PSCR customers, or some combination of the two. In the latter circumstance, the PSCR customers would be subsidizing the cost of service to the customers returning from choice.

Q: Is there a basis for this concern elsewhere in the industry?

A: Most definitely. In several states that have already experienced customer choice for a year or more, there are many examples of customers returning to utility service just prior to peak summer months, or cases where an AES suddenly withdraws from a market and dumps a great number of customers (with a sizeable load) back onto the utilities. The utilities, who retain the obligation to serve such customers as the "provider of last resort", have often incurred significant financial hardships as a result. A dramatic example of this situation occurred in Pennsylvania, which is often touted as the state with the greatest successes regarding customer choice. Large numbers of customers were returned to utility service last spring just before the summer and the cycle is starting to play out again this year. GPU, one of the utilities in Pennsylvania, has been hit with significant financial hardships as a result of this situation.

Q: Why are the Companies proposals reasonable under the balancing of interests approach?

A: First, the Customer would be allowed back to the Full Requirements Service rates after a short transition period – no more than 6 months. Second, as defined, Default Service rates would exceed the Full Requirements Service generation rates only where the top incremental costs were higher than the average regulated rates. These measures would operate to protect the Companies and other customers from the consequences of serving returning customers at a loss when top incremental costs are significantly higher than average regulated rates. The returning customers would bear the risks associated with incremental pricing, as they should, but only for a limited time.

Q: What did the Staff propose as an alternative?

A: The Staff deleted the Default Service concept entirely and added language which would allow any Customer to return to Full Requirements Service on 30-day notice.

Q: Why is the Staff position less reasonable than the Companies' proposal?

A: The Staff's proposal was based on a concern about eliminating barriers to competition, but this was done at the expense of the companies being able to properly manage risks associated with customers suddenly returning to utility service after initially switching to an AES. This is especially problematic for larger customers or groups of smaller customers returning to the utility. The Companies' proposal would operate to prevent the problem of selling power at retail rates below the wholesale cost, for a limited time (no more than 6 months). We believe that market participation will be affected more by aggregate market factors, such as wholesale prices and supply, and supplier entry and marketing, than by tariff protections of this type. Staff's proposal, on the other hand, makes it more likely that either: (i) the Companies would have to provide service at a loss to some customers; or (ii) power supply costs of all utility customers would increase to support the switch-and-return group.

The Staff proposal would also increase the uncertainty associated with a utility's long-term planning for customer load and adequate generating resources. For example, if a major load customer of the utility decides to take generation service from an AES, the utility may respond by contracting to buy or sell less or more power, respectively and it might defer the acquisition of new generating resources. If that major customer is allowed to return with minimal notice at the normal regulated rate level, the utility could find itself in a difficult position matching supply with the new, suddenly increased, demand threatening service to all customers. Our proposal for 6 months notice would minimize the risk yet still allow the return to regulated rates in a reasonable period.

Q: What is the Companies response to the Staff concerning creditworthiness?

A: In Tariff Section 3.5, the Companies' original proposal contemplated developing specific elements for creditworthiness to be included in the tariff filing on June 5, 2001. Staff replaced the Companies' language with a provision establishing the following criteria: (1) an amount sufficient to cover anticipated charges for all services provided by the Companies; (2) 3 years of audited financials (acceptable positive net worth plus meeting risk parameters); (3i) alternate security (guarantee, letter of credit); (4) reasonable review; and (5) standards apply to Companies affiliates. Most of these criteria contemplate the development of specific benchmarks for items such as “anticipated charges”, “acceptable positive net worth”, “risk parameters”, etc. The issue, then, is how much of the specific benchmarks developed needs to be included in the tariff. The Companies have considered the Staff language and propose to use the following statement (revisions to Staff language are shown):

The Alternative Electric Supplier must demonstrate and maintain current creditworthiness in an amount sufficient to cover anticipated charges for all services provided by [Company Name] **and must provide to** [Company Name] **a historical record, of up to three (3) years, documenting prompt and timely payment of all** previous **charges.** For unsecured credit, the Alternative Electric Supplier must provide three (3) years of audited financial statements, including notes, having an acceptable amount of positive tangible net worth, and meeting risk parameters derived from an analysis of its financial statements. The Alternative Electric Supplier may provide alternative security or credit enhancement **in a form acceptable to** [Company Name], such as a letter of guarantee, letter of credit or prepayment. [Company Name] will use reasonable credit review procedures which may include, but are not limited to, review of the Alternative Electric Supplier’s financial statements, verification that the Alternative Electric Supplier is not operating under state or federal bankruptcy laws, and has no pending lawsuits or regulatory proceedings or judgments outstanding which would have a material adverse affect on the Alternative Electric Supplier and its ability to perform its obligations. Affiliates of [Company Name] are subject to these same requirements and must provide proof of creditworthiness consistent with the code of conduct approved by the Commission.

Additional detail can be developed in procedures manuals.

Q: Are there additional issues regarding the Staff proposal you wish to identify?

A: Yes. Many of the Staff changes were developed for purposes of clarification, avoiding redundancy and to develop consistency with other provisions. We agree in concept except for a few items, and the Staff changes will be incorporated in the revised tariff draft to be filed on June 5, 2001. My additional specific comments are as follows:

(1) AES Disconnection (Section 2.8.2): The Staff proposal to allow disconnection under the billing rules on request of an AES may be premature because the MPSC rules (Rules 61-62) do not authorize shutoffs for non-payment of a 3rd party supplier. Including the provision may suggest otherwise. The Companies are emphatic in their belief that once a customer switched to an AES, the contractual obligations will guide any payment disputes between the customer and the AES for that portion of their electric service. At no point will the Companies intercede in any failure to pay the AES bill by a customer - that is a contractual issue between the other two parties and the use of disconnection to settle such issues are inappropriate.

(2) Customer Authorization for Customer Information (Section 2.3.1): We have some concerns with the Staff proposed changes in this section on which we are still trying to reach consensus. The final consensus will be included in the June 5 tariff filing.

(3) Switch Request (Section 2.4.2): We believe the Companies should define the validation information required in a switch request. Currently, the MPSC has not established any rules or requirements associated with the customer enrollment and switching process. Consequently, the utilities will need to define the minimum requirements to validate customer enrollments and switching, and are still working on consensus on these issues.

(4) Limitation of Liability (Sections 2.9 and 3.7): The Companies will compare these provisions regarding the consistency with other limitations language in the general tariff rules and regulations and consider combining the separate provisions in the Customer and Supplier sections. The limitation of consequential damages is an important item.

(5) Other Issues: We are considering appropriate fees and time periods for certain actions left blank in the original proposal. The Staff modified these fees and time periods in its exhibit, but the basis for these figures was not based on the operational or financial processes of our Companies, but were based on those of other companies in Michigan. Thus, the Companies are currently determining the appropriate values for these items. These will be finalized and included in the June 5 filing.

Q: Does this complete your testimony?

A: Yes.