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April 27, 2001

Ms. Dorothy Wideman
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, MI 489 11

RE: Case No. U-12655
In the matter of the application of Alpena Power Company
for approval of its plan to implement 2000 PA 141

Dear Ms. Wideman:

Enclosed for filing are an original and four copies of the rebuttal Testimony of Steven K. Mitchell On Behalf of Alpena Power Company. This filing is also being made pursuant to the Commission's electronic filing project.

Very truly yours,

James D. Florip
Attorney for Alpena Power Company

JDF:jrm

cc: S. Mitchell
Parties of Record

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the application of	)	
ALPENA POWER COMPANY	)	Case No. U-12655
for approval of its plan to	)	
implement 2000 PA 141	)	

Rebuttal Testimony of

Steven K Mitchell

On Behalf of:

Alpena Power Company

Filed: April 27, 2001

Rebuttal Testimony of Steven K Mitchell

Q: Please state your name and business address.

A: My name is Steven K. Mitchell and my business address is 310 N. Second Avenue, Alpena, Michigan 49707

Q: What is your position with Alpena Power Company ("Alpena")?

A: I am Vice President, Treasurer and Chief Financial Officer.

Q: What is your experience and involvement relating to implementation of customer choice by Alpena?

A: I am actively involved in the implementation of customer choice, 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 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 the Commission Staff, in testimony and exhibits filed on March 19, 2001. Because the Michigan Environmental Council and the Public Interest Research Group in Michigan are not parties to this case I will not respond to the testimony and exhibits of Martin G. Kushler.

Q: What is your Alpena's 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 Alpena 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 MEGA 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 intent 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 Alpena's ultimate tariff. In this testimony, I will address the major differences of position between Alpena 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 Alternative

Electric Suppliers (“AES”) 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, AES’s, 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 that 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 Alpena’s 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 Alpena's top incremental cost for Power.

This provision was included, not to discourage choice, but to protect Alpena and 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 Alpena 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 Alpena's shareholders 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 is Alpena's proposal 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 Alpena and other customers from the consequences of serving returning customers at a loss when top incremental costs are significantly higher than average regulated rats. 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 Alpena's proposal?

A: The Staff's proposal was based on a concern about eliminating barriers to competition, but this was done at the expense of Alpena 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 Alpena. Alpena's 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) Alpena 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 Alpena's long-term planning for customer load and adequate generating resources. For example, if a major load customer of Alpena decides to take generation service from an AES, Alpena may respond by contracting to buy less power 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, Alpena 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 Alpena's response to the Staff concerning creditworthiness?

A: In Tariff Section 3.5, Alpena's original proposal contemplated developing specific elements for creditworthiness to be included in the tariff filing on June 5, 2001. Staff replaced Alpena's language with a provision establishing the following criteria: (1) an amount sufficient to cover anticipated charges for all services provided by Alpena; (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 Alpena's 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. Alpena has considered the Staff language and proposes 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. 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. Alpena is emphatic in its 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 Alpena 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 Alpena 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, Alpena will need to define the minimum requirements to validate customer enrollments and switching, and we are still working with other MEGA companies on consensus on these issues.

(4) Limitation of Liability (Sections 2.9 and 3.7): Alpena 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 Alpena, but were based on those of other companies in Michigan. Thus, Alpena is 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.

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April 27, 2001

Ms. Dorothy Wideman
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, MI 489 11

RE: Alpena Power Company
Case No. U-12655

Dear Ms. Wideman:

Enclosed for filing please find a Proof of Service in the above matter. This proof is also being filed electronically.

Very truly yours,

James D. Florip

JDF:jrm

Enc.

cc: S. Mitchell

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

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for approval of its plan to	)	
implement 2000 PA 141	)	
	)	

PROOF OF SERVICE

Janet R. Misiak, being first duly sworn, deposes and states that on the 27th day of April, 2001, she served a copy of the **Rebuttal Testimony of Steven K. Mitchell On Behalf of Alpena Power Company** upon the following persons:

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1 st Class Mail with proper postage affixed thereto.

Janet R. Misiak

Janet R. Misiak

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

Patricia D Hiske

Patricia D. Hiske, Notary Public
Alpena County, Michigan
My commission expires: 06-28-2002