STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of **UPPER PENINSULA POWER COMPANY** for approval of depreciation rates and practices.	)	Case No. U-13001

At the January 22, 2002 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. Laura Chappelle, Chairman
Hon. David A. Svanda, Commissioner
Hon. Robert B. Nelson, Commissioner

OPINION AND ORDER

On November 10, 1993, the Commission issued an order in Case No. U-10371 establishing depreciation rates for Upper Peninsula Power Company (UPPCo), effective January 1, 1994 through December 31, 1999. On October 24, 1996, the Commission amended the November 10 order by modifying certain depreciation rates and extending the effective date to December 31, 2001.[1]

During 2001, UPPCo undertook a depreciation study, which identified a need to revise UPPCo's depreciation accrual rates. On July 2, 2001, UPPCo filed an application requesting approval of certain depreciation rates to be made effective January 1, 2002.

On September 9 and November 8, 2001, UPPCo filed revised schedules to its application.

[1] On December 20, 2001, the Commission declined to require the revision of the depreciation rates for Consumers' and Detroit Edison's electric plant, as a result of the rate freeze or cap imposed by Act 141. UPPCo is not subject to the rate cap and freeze provisions of the Act and is therefore not being accorded similar treatment.

UPPCo's study, as revised, shows that its proposed overall composite accrual rate, based upon depreciable electric plant as of December 31, 2000, adjusted to remove assets transferred in 2001 to the American Transmission Company, LLC, is 3.15%, compared to an existing overall composite accrual rate of 3.52%. UPPCo's study shows that the proposed accrual rates would result in the total annual depreciation accrual being reduced by $464,440.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCL 460.551 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AACS, R 460.17101 et seq.

b. The depreciation rates proposed by UPPCo should be approved.

c. Ex parte approval of the application is appropriate.

THEREFORE, IT IS ORDERED that:

A. The depreciation accrual rates attached to this order as Appendix A are approved for use by Upper Peninsula Power Company, effective January 1, 2002 through December 31, 2006.

B. Beginning January 1, 2002, and continuing until revised by the Commission, Upper Peninsula Power Company shall determine its monthly accrual for depreciation by multiplying the actual average beginning and end of the month plant balances by one twelfth of the annual depreciation rate set out in approved Appendix A. Depreciation expense shall cease to be recorded for any account that becomes fully accrued before the next depreciation order. If there are subsequent additions, the approved rate shall be used to determine the depreciation expense.

C. These depreciation rates may be revised by the Commission on its own motion or upon petition by Upper Peninsula Power Company prior to December 31, 2006, for any of the following reasons:

1. Extraordinary changes in service lives or net salvage values.
2. Major property additions for which the depreciation accrual rates are not appropriate.
3. New plant account categories for which depreciation accrual rates have not been established.

D. Before August 1, 2006, Upper Peninsula Power Company shall file an application for new or revised depreciation rates. Its proposal shall be supported by a depreciation study, testimony, and other data that the Commission Staff may request and shall be based on data as of the preceding calendar year.

E. During the period that these depreciation rates are in effect, Upper Peninsula Power Company shall notify the Commission in advance of any retirement that (1) is proposed to be made prior to or substantially later than the year in which the retirement was assumed in the development of the depreciation rates approved in this order, and (2) will have a significant effect upon the appropriate accumulated provision for depreciation balance.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ Laura Chappelle
Chairman

(S E A L)

/s/ David A. Svanda
Commissioner

/s/ Robert B. Nelson
Commissioner

By its action of January 22, 2002.

/s/ Dorothy Wideman
Its Executive Secretary

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MICHIGAN PUBLIC SERVICE COMMISSION

Chairman

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Commissioner

By its action of January 22, 2002.

Its Executive Secretary

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<u>Suggested Minute</u>:

> "Adopt and issue order dated January 22, 2002 approving revised depreciation rates for Upper Peninsula Power Company, as set forth in the order."