

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of Wisconsin Electric Power Company d/b/a We Energies for approval of a power supply cost recovery plan and authorization of monthly power supply cost recovery factors for the calendar year 2006.

Case No. **U-14707**
(e-file/paperless)

REPLY BRIEF
OF THE MICHIGAN PUBLIC SERVICE COMMISSION STAFF

The Michigan Public Service Commission Staff (“Staff”), by its counsel, Emmanuel B. Odunlami, Assistant Attorney General, files the following reply brief in support of Staff’s position in Wisconsin Electric Power Company’s power supply cost recovery plan for the calendar year 2006.

Statutory Requirements

In order for a utility to implement its Power Supply Recovery Clause (PSCR), Section 6j(3) of the Act 304 requires the utility to file annually a complete power supply cost recovery plan. As required by Section 6j(3) of Act 304, the utility’s PSCR plan must describe its expected source of electric power supply, its costs for the electric power supply, and the anticipated changes in cost of power supply over a future 12-month period. Moreover, the plan filed under Section 6j(3) of Act 304 must include the utility’s reasonableness and prudent evaluations of its strategy to provide power supply over the future 12-month period. Further, Section 6j(4) of Act 304 requires the utility to file contemporaneously with its plan, under Section 6j(3), a five-year forecast of its power supply requirements, its anticipated sources of supply, and its five-year projection of power supply.

Wisconsin Electric Power Company's Petition

On September 30, 2005, and pursuant to the statutory provisions above, Wisconsin Electric Power Company ("WEPCo") applied for approval of its PSCR plan and its projected five-year power supply forecast. In its petition, Wisconsin Electric seeks the Commission's authority to implement a PSCR factor of \$0.01613 per kWh for the calendar year 2006.

In accordance with the Commission's authority granted in Case Nos. U-13223, U-13624 and U-13907, Wisconsin Electric seeks to include hedging costs in its fuel costs and also to recover the hedging costs through the PSCR mechanism under Act 304. In support of its application, Wisconsin filed the direct testimony and Exhibits of Thomas P. Lorden and Paul D. Schumaker.

History of the Proceeding

A prehearing conference was held on November 15, 2005 before Administrative Law Judge Daniel E. Nickerson, Jr. The Administrative Law Judge granted the delayed petitions to intervene filed by Louisiana-Pacific Corporation and Tilden Mining Company, L.C.

The evidentiary hearing was held on April 24, 2006. At the hearing, Wisconsin Electric Power Company presented the prefiled and rebuttal testimony of Thomas P. Lorden¹ and Paul D. Schumaker.² Louisiana-Pacific Corporation and Tilden Mining Company, L.C. prefiled the testimony of Mr. Nichols Phillips, however, this was subsequently withdrawn.³ Staff did not file any testimony and presented no witnesses.

¹ TR 3, 47-98.

² TR 3, 142-167.

³ TR 3, 176.

Pursuant to the scheduled date for reply briefs, Staff files this reply brief and recommends that the Commission approve Wisconsin Electric's 2006 PSCR factor of \$0.01613/kWh.

Wisconsin Electric Power Company's 2006 PSCR Plan

Thomas P. Lorden, a senior project specialist in the Regulatory Affairs and Policy Department of Wisconsin Electric Power Company, provided the company's overview and development of 2006 Power Supply Cost Recovery (PSCR) factor for the 2006 PSCR plan. Mr. Lorden stated in his testimony that the average system cost was derived by using projected cost for January through December, 2006. He further stated that the PSCR factors for the 2006 plan year was calculated by using base power supply costs from generation and purchased power requirements and costs as directed by this Commission in Case No. U-12725, Commission Opinion and Order issued on September 16, 2002. Further, Mr. Lorden's testimony described the company's procurement of fossil fuel, nuclear fuel and its fuel cycle services, including all nuclear fuel components used in calculating the company's nuclear fuel expense. In support of his testimony, Mr. Lorden sponsored Exhibit A-1 (TPL-1) through A-12.⁴

Paul D. Schumaker, business planning manager, Commodity Resources Business unit at Wisconsin Electric Power Company, provided information in regards to the company's power purchase and long-term contracts for the 2006 PSCR plan. He testified as to the reasonableness and prudence of the company's long-term purchase contracts for capacity and energy. Further, he provided information in regards to the projected impact on the company's 2006 PSCR by the

⁴ TR 3, 49.

Midwest Independent Transmission System Operator (“MISO”) market. In support of his testimony, he sponsored Exhibit A-13 (PDS-1) through Exhibit A-15.⁵

Discussion

The discussion below is focused on the issues raised by Louisiana-Pacific Corporation and Tilden Mining Company, L.C., in their Initial Brief.

A. Third Party Sales

The issue raised by the Intervenors in this case, in regards to third-party sales, is whether the proceeds from wholesale firm sales should be credited to offset Wisconsin Electric’s 2006 PSCR costs. The intervenors subsequently withdrew the issue from consideration in this plan case. Staff, therefore, will not provide a response to the third party sales issue.

That being said, and in light of the new MISO Energy market activities, Staff does recommend that the Commission direct all parties to closely examine the jurisdictional allocations of cost and revenue between Wisconsin Electric’s wholesale and retail operations in the company’s next Michigan general rate proceeding to insure proper allocations are being made between the two operations. Likewise, the Commission should require that the Company confirm in future reconciliation proceedings that all opportunity sales/third party revenues are properly credited against the cost of fuel and purchased power costs.

B. MISO Revenue Sufficiency Guarantee (RSG) Payments

Because this is a plan case subject to reconciliation, the 2006 power supply projections presented by Wisconsin Electric are reasonable in light of limited MISO Day 2 experience. The

⁵ TR 3, 147.

2006 projections include amounts for MISO uplift charges, but excluded projections in regards to Revenue Sufficiency “Guarantee credits” from MISO.⁶ As explained on Exhibit LP-43, Wisconsin did not project RSG revenue because it did not project additional fuel costs that would have been necessary to supply the energy to MISO to offset the RSG revenue make whole payments.⁷ It is Staff’s position, however, that RSG make whole payments costs and credits are reconcilable if these MISO make whole payments costs and credits are generated during Wisconsin Electric’s 2006 PSCR plan year. While Wisconsin Electric has stated that the costs that would be incurred would essentially offset the RSG revenue, Staff believes the PSCR reconciliation will allow a full accounting and recognize any RSG net credit. This credit would then serve as a reduction in PSCR costs.

C. Average System Cost, Loss Multiplier and \$7,850,045 MISO Losses

Based on Staff’s review of the record in this case, it is Staff’s position that Wisconsin Electric’s PSCR determination is reasonable and consistent with past practices in calculating PSCR factor for the following reasons:

1. Wisconsin Electric properly determined the average system power supply costs, subtracted the amount in base rates, and then applied a loss multiplier to provide a PSCR factor at sales level.
2. The applied 1.06 loss multiplier is also consistent with this Commission’s past practices in PSCR plan cases.

As stated by Wisconsin Electric⁸:

The purpose of that loss factor is to adjust the cost per megawatt hour on a generation level basis down to a cost per megawatt hour on a customer basis. Essentially we’re collecting the 951 million over less megawatt hours.

⁶ TR 3, 113-118.

⁷ *Id.*

⁸ TR 3, 137.

It is Staff's position that the intervenors failed to see the distinction between a loss multiplier designed to adjust generation cost down to cost per megawatt hours on customer use basis; and losses due to the regional loss component of the MISO Locational Marginal Price (LMP).

As stated by WEPCo in its Initial Brief at page 11:

MISO credits the Company for energy sold to MISO at the Locational Marginal Price ("LMP") for the generation node involved, and charges the Company for energy delivered to the Company at the LMP for the commercial pricing node involved.

Further, MISO's LMP is made of three cost components, namely: (1) marginal energy cost, (2) marginal congestion cost; and (3) the loss component. Simply, and in Staff's view, the marginal loss component of the LMP price is present as a loss component for energy sold to MISO by the company at the LMP price, and for energy delivered to the company, at the LMP price, by MISO.

Moreover, the company stated thus⁹:

For purposes of presenting its 2006 PSCR Plan and calculating its proposed PSCR Factors, the Company "nets" out, on an hourly basis, the MISO charges incurred and MISO credits received for service during that hour. The Company then shows the resulting "net" amounts in calculating the recoverable MISO costs for such hour.

Since the reason for utilizing the 1.06 multiplier is to provide the amount to be assessed per kWh of sales, a check of Wisconsin Electric's calculation can be done by simply dividing total system power supply costs by total system sales. Total system power supply costs are projected to be \$951,219,866 (Exhibits A-7 &11). Total system sales would be net system

⁹ WEPCo's Initial Brief, p 11.

requirements (Exhibit A-7 & 11) less losses from Exhibit A-1. The result is total system sales of 30,785,558 mWh and an average cost per mWh of sales of \$30.90. This compares closely with the amount calculated by Wisconsin Electric, \$30.75, using the 1.06 multiplier as shown on exhibit A-7.

Thus, it is Staff's position that the \$7,850,045 of incremental MISO losses is a cost component of MISO net transaction cost and was properly included as part of WEPCo's projected power supply cost. Staff asserts that line losses will be reviewed in the reconciliation and will be reflective of actual costs.

Conclusion

Because WEPCo's 2006 PSCR plan is reasonable, Staff recommends the approval of Wisconsin Electric's 2006 PSCR plan and factor of \$0.01613 per kWh including Staff's recommendations as it relates to third party sales and MISO revenue sufficiency guarantee payments.

Respectfully submitted,

**MICHIGAN PUBLIC SERVICE COMMISSION
STAFF**



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Dated: June 8, 2006

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PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF INGHAM)

Linda Andreas, being first duly sworn, deposes and says that on **June 8, 2006**, she served a true copy of the **Reply Brief of the Michigan Public Service Commission Staff** upon the following parties by depositing the same in a United States postal depository enclosed in an envelope bearing postage fully prepaid, plainly addressed as follows:

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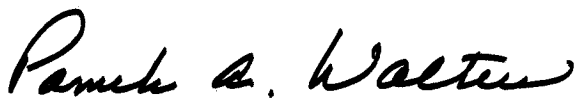
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Linda Andreas

Subscribed and sworn to before me
this 8th day of June, 2006.



Pamela A. Walters, Notary Public
State of Michigan, County of Ionia
Acting in the County of Ingham
My Commission Expires: 02/04/2007