

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of	)	
UPPER PENINSULA POWER COMPANY	)	
for approval of a power supply cost recovery	)	
plan and authorization of monthly power supply	)	Case No. U-14706
cost recovery factors for the calendar year 2006	)	
and deferred accounting and recovery authority	)	
for the effects of hedging of fuel and purchased	)	
power costs.	)	
_____	)	

At the May 25, 2006 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. J. Peter Lark, Chairman
Hon. Laura Chappelle, Commissioner
Hon. Monica Martinez, Commissioner

ORDER APPROVING SETTLEMENT AGREEMENT

On September 28, 2005, Upper Peninsula Power Company (UPPCo) filed an application, with supporting testimony and exhibits, to implement a power supply cost recovery (PSCR) plan and to reflect PSCR factors in its 2006 billings to its retail electric customers.

Pursuant to due notice, a prehearing conference was held on November 8, 2005, before Administrative Law Judge Barbara A. Stump. UPPCo, the Commission Staff (Staff), Michigan Technological University (MTU), Smurfit-Stone Container Corporation (Stone), and Calumet Electronics Corporation (Calumet) participated in the proceedings.

On January 19, 2006, the Staff filed its direct case. Subsequently, UPPCo and the Staff submitted a settlement agreement resolving all the issues in the case. MTU, Stone, and Calumet submitted statements of non-objection to the settlement agreement.

In the settlement agreement, attached as Exhibit A, the parties request the Commission to approve UPPCo's 2006 PSCR plan and authorize UPPCo to implement a 2006 PSCR factor of 31.8 mills per kilowatt-hour (kWh) for the Integrated System customers and a 2006 PSCR factor of 1.83 mills per kWh for the Iron River System customers. The parties agree that for purposes of the 2006 PSCR plan, UPPCo will defer the issue of the recovery of 2006 replacement power costs related to the Silver Lake dam incident, estimated to be \$1,727,595, and that the actual deferred amount (including interest calculated at the short-term borrowing rate) shall be determined in a future PSCR proceeding, provided that recovery of the deferred amount plus interest may begin no earlier than January 1, 2007. The parties further agree that UPPCo's five-year forecast of power supply requirements meets the statutory mandates of 1982 PA 304 and should be accepted for filing. Finally, the parties agree that it is reasonable for the Commission to allow for recovery through the PSCR mechanism of prudently incurred actual costs and credits associated with use of Financial Transmission Rights (FTRs).

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.*; 1982 PA 304, as amended, MCL 460.6h *et seq.*; 1969 PA 306, as amended, MCL 24.201 *et seq.*; and the Commission's Rules of Practice and Procedure, as amended, 1999 AC, R 460.17101 *et seq.*
- b. The settlement agreement is reasonable and in the public interest, and should be approved.

c. It is reasonable and prudent for UPPCo to defer recovery of 2006 costs, including interest, related to the Silver Lake dam incident, provided that recovery of such costs in a future PSCR proceeding begins no earlier than January 1, 2007.

d. It is reasonable and prudent for UPPCo to recover through the PSCR mechanism prudently incurred actual costs and credits associated with FTRs.

THEREFORE IT IS ORDERED that:

A. The settlement agreement, attached as Exhibit A, is approved.

B. Upper Peninsula Power Company is authorized to implement a power supply cost recovery factor of up to 31.8 mills per kilowatt-hour for the Integrated System customers and a power supply cost recovery factor of up to 1.83 mills per kilowatt-hour for the Iron River System customers for the calendar year 2006.

C. In accordance with the terms of the settlement agreement, Upper Peninsula Power Company shall defer the issue of recovery of 2006 replacement power costs, including interest, related to the Silver Lake dam incident, provided that recovery of such costs in a future power supply cost recovery proceeding may begin no earlier than January 1, 2007.

D. Upper Peninsula Power Company is authorized to recover through the power supply cost recovery mechanism prudently incurred actual costs and credits associated with Financial Transmission Rights.

E. Within 30 days, Upper Peninsula Power Company shall file tariff sheets substantially similar to Attachment 1 of the settlement agreement with the Commission.

F. Should Upper Peninsula Power Company desire to apply a lesser power supply cost recovery factor than that approved by this order, it shall notify the Commission ten days before

using the lesser factor and shall file during the billing month a tariff sheet showing the lesser factors it is applying.

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/ J. Peter Lark

Chairman

(S E A L)

/s/ Laura Chappelle

Commissioner

/s/ Monica Martinez

Commissioner

By its action of May 25, 2006.

/s/ Mary Jo Kunkle

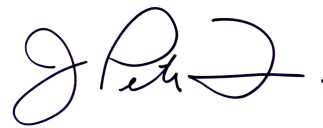
Its Executive Secretary

using the lesser factor and shall file during the billing month a tariff sheet showing the lesser factors it is applying.

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



Chairman



Commissioner



Commissioner

By its action of May 25, 2006.



Its Executive Secretary

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
UPPER PENINSULA POWER COMPANY)
for approval of a power supply cost recovery)
plan and authorization of monthly power)
supply cost recovery factors for the calendar)
year 2006 and deferred accounting and)
recovery authority for the effects of hedging)
of fuel and purchased power costs.)

Case No. U-14706

SETTLEMENT AGREEMENT

As provided in § 78 of the Administrative Procedures Act of 1969 ("APA"), as amended, MCL 24.278, and Rule 333 of the Rules of the Practice and Procedure Before the Commission, 2000 AC, R 460.17333, Upper Peninsula Power Company ("UPPCO" or the "Company") and the Michigan Public Service Commission Staff ("Staff"), hereby agree as follows:

1. On September 28, 2005, UPPCO filed with the Michigan Public Service Commission ("Commission") its Application, along with the testimony and exhibits of its witnesses, John G. Guntlisbergen and Cheryl A. Salmon, to implement a Power Supply Cost Recovery ("PSCR") plan and PSCR factors for the 2006 calendar year.

2. In its Application, UPPCO requested authority to implement the 2006 annual PSCR factors proposed by UPPCO in its 2006 PSCR plan. UPPCO proposed a positive 2006 PSCR factor of 31.8 mills for the Integrated System customers and a positive 2006 PSCR factor 1.83 mills for the Iron River System customers. In its plan filing, UPPCO also requested approval of deferred accounting, regulatory asset treatment

and PSCR recovery associated with the use of Financial Transmission Rights (“FTRs”) to hedge the Company’s 2006 PSCR costs.

3. On October 12, 2005, the Commission’s Executive Secretary issued a Notice of Hearing directing UPPCO to mail a copy of the Notice of Hearing to all cities, incorporated villages, townships, and counties in its service area and to all intervenors in Case No. U-14706. The Commission further directed UPPCO to publish the Notice of Hearing in daily newspapers of general circulation throughout its service area. Complying with the directives, UPPCO filed with the Commission the requisite Affidavit of Mailing and Proofs of Publication on November 7, 2005.

4. On November 8, 2005, Administrative Law Judge Barbara Stump presided over a prehearing conference in this matter, and Staff entered its Appearance. Michigan Technological University (“MTU”), Smurfit-Stone Container Corporation (“Stone Container”) and Calumet Electronics Corporation (“Calumet”) were granted intervention.

5. On January 19, 2006, Staff filed the direct testimony of William G. Aldrich. Mr. Aldrich’s testimony addressed Staff’s position on UPPCO’s request for deferred accounting and recovery authority for the effects of hedging and purchased power costs.

6. Subsequent to the prehearing conference, the parties have engaged in settlement discussions, and as a result, have successfully reached compromise on all of the contested issues in this case. The parties to this settlement agreement agree as follows:¹

- a. UPPCO’s 2006 PSCR Plan case, is reasonable and should be approved by the Commission.

¹ MTU, Stone Container and Calumet advise that they will be filing Statements of Non-objection to this settlement agreement.

- b. For purposes of the 2006 PSCR plan, the Commission should authorize UPPCO to defer the issue of the recovery of 2006 costs related to the Silver Lake Dam incident estimated to be \$1,727,595. The actual deferred amount (plus interest calculated at the short-term borrowing rate) shall be determined in a future PSCR proceeding provided that recovery of the deferred amount plus interest may begin no earlier than January 1, 2007.
- c. The Commission should approve and authorize UPPCO to implement for the 2006 PSCR plan period, a positive PSCR factor of 31.8 mills for the Integrated System customers and a positive PSCR factor of 1.83 mills for the Iron River System customers. UPPCO's tariff sheets reflecting the factors are attached hereto as Attachment 1 and are acceptable to the parties hereto.
- d. UPPCO's 5-year forecast of power supply requirements meets the statutory mandates of 1982 PA 304 and should be accepted for filing.
- e. The parties agree that it is reasonable for the Commission to allow for the recovery through the PSCR mechanism of prudently incurred actual costs and credits associated with use of Financial Transmission Rights ("FTRs").

7. All of the signatories are of the opinion that this Settlement Agreement will aid the expeditious conclusion of this case.

8. This Settlement Agreement is intended for a final disposition of this proceeding, and the parties join in respectfully requesting that the Commission grant

prompt approval. The parties agree not to appeal, challenge or contest the Commission's Order accepting and approving this Settlement Agreement without modification. If the Commission does not accept the Settlement Agreement without modification, the Agreement shall be withdrawn and shall not constitute any part of the record in this proceeding or be used for any other purpose whatsoever.

9. This Settlement Agreement has been made for the sole and express purpose of settling this case, and all discussions relating hereto are and shall be privileged and shall not be used in any manner, or be admissible for any other purpose in connection with this proceeding or any other proceeding hereof. This Settlement Agreement does not constitute a precedent in any other case or proceeding except as necessary to carry out its terms.

10. All signatories waive Section 81 of the APA of 1969, as amended, MCL 24.281.

UPPER PENINSULA POWER COMPANY

Dated: April 21, 2006

By: _____
One of its Attorneys
Harvey J. Messing (P23309)
Sherri A. Wellman (P38989)
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MICHIGAN PUBLIC SERVICE COMMISSION
STAFF

Dated: April 21, 2006

By: _____
Its Attorney
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JOINT STATEMENT OF NON-OBJECTION
OF MICHIGAN TECHNOLOGICAL UNIVERSITY,
SMURFIT-STONE CONTAINER CORPORATION and
CALUMET ELECTRONICS CORPORATION

Michigan Technological University, Smurfit-Stone Container Corporation and Calumet Electronics Corporation have no objection to the entry of the Order Approving Settlement Agreement in the above referenced matter, and waive Section 81 of the Administrative Procedures Act of 1969, as amended, 1969 PA 306, § 81; MCL 24.281.

Respectfully submitted,

MICHIGAN TECHNOLOGICAL UNIVERSITY

Christine Mason
Soneral

Digitally signed by Christine Mason
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C = US, O = Dykema Gossett PLLC
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Dated April 24, 2006

By: _____

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SMURFIT-STONE CONTAINER CORP.

Dated: April 25, 2006

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CALUMET ELECTRONICS CORPORATION

Dated: April 27, 2006

By: **Michael J. Brown**
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M.P.S.C. No. 7
UPPER PENINSULA POWER COMPANY

Exhibit A-3 (JGG-3)
Case No. U-14706
Seventeenth Revised Sheet No. 25.0
Page 1 of 2

POWER SUPPLY COST RECOVERY INTERCONNECTED SYSTEM

A. PSCR Factors:

All rates for electric service shall include an amount up to the Power Supply Cost Recovery Factor (the PSCR Factor) for the specified billing period as set forth below.

The PSCR Factors for a given month will consist of an increase or decrease of .010794 mills per kWh for all customers in the Interconnected System for each full .01 mill increase or decrease in the projected power supply costs for that month above or below a cost base of 22.59 mills per kWh, rounded to the nearest one-hundredth of a mill per kWh. The projected power supply costs per kWh shall equal the total projected net power cost in that month divided by the sum of that month's projected net system kWh requirements. Net system kWh requirements shall be the sum of net kWh generation and net kWh purchased and interchanged.

An amount not exceeding the PSCR Factor for each month shall be placed into effect in the first billing cycle of that monthly billing period and shall continue in effect until the first billing cycle of a subsequent month for which a subsequent PSCR Factor becomes operative.

The PSCR Factor to be used for each of the 12 months in 2006 is a positive 31.80 mills per kWh.

B. Monthly Reports:

Not more than 45 days following the last day of each billing month in which a PSCR Factor has been applied to customers' bills, the Company shall file with the Commission a detailed statement for that month of the revenues recorded pursuant to the PSCR Factor and the allowance for cost of power supply included in the base rates established in the latest Commission order for the Company and the cost of power supply.

C. Annual Reconciliation:

All fuel cost and purchased and net interchanged power revenues received by the Company, whether included in base rates or collected pursuant to a fuel and purchased power cost adjustment clause or a power supply cost recovery clause, shall be subject to annual reconciliation with the cost of fuel and purchased and net interchanged power. Such annual reconciliations shall be conducted in accordance with the reconciliation procedures described in Section 6j(12) to (18) of 1939 PA 3, as amended, including the provisions for refunds, additional charges, deferral and recovery, and shall include consideration by the Commission of the reasonableness and prudence of expenditures charged pursuant to any fuel and purchased power cost adjustment clause in existence during the period being reconciled.

POWER SUPPLY COST RECOVERY
IRON RIVER SYSTEM

A. PSCR Factors:

All rates for electric service shall include an amount up to the Power Supply Cost Recovery Factor (the PSCR Factor) for the specified billing period as set forth below.

The PSCR Factor for a given month will consist of an increase or decrease of .01088 mills per kWh for all of its customers in the Iron River System for each full .01 mill increase or decrease in the projected power supply costs for that month above or below a cost base of 38.10 mills per kWh, rounded to the nearest one-hundredth of a mill per kWh. The projected power supply costs per kWh shall equal the total projected net power cost in that month divided by the sum of that month's projected net system kWh requirements.

An amount not exceeding the PSCR Factor for each month shall be placed into effect in the first billing cycle of that monthly billing period and shall continue in effect until the first billing cycle of a subsequent month for which a subsequent PSCR Factor becomes operative.

The PSCR Factor to be used for each of the 12 months in 2006 is a positive 1.83 mills per kWh.

B. Monthly Reports:

Not more than 45 days following the last day of each billing month in which a PSCR Factor has been applied to customers' bills, the Company shall file with the Commission a detailed statement for that month of the revenues recorded pursuant to the PSCR Factor and the allowance for cost of power supply included in the base rates established in the latest Commission order for the Company and the cost of power supply.

C. Annual Reconciliation:

All fuel cost and purchased and net interchanged power revenues received by the Company, whether included in base rates or collected pursuant to a fuel and purchased power cost adjustment clause or a power supply cost recovery clause, shall be subject to annual reconciliation with the cost of fuel and purchased and net interchanged power. Such annual reconciliation shall be conducted in accordance with the reconciliation procedures described in Section 6j(12) to (18) of 1939 PA 3, as amended, including the provisions for refunds, additional charges, deferral and recovery, and shall include consideration by the Commission of the reasonableness and prudence of expenditures charged pursuant to any fuel and purchased power cost adjustment clause in existence during the period being reconciled.

P R O O F O F S E R V I C E

STATE OF MICHIGAN)

Case No. U-14706

County of Ingham)

Patricia A. Fronta being duly sworn, deposes and says that on May 25th 2006, A.D. she served a copy of the attached Commission order by first class mail, postage prepaid, or by inter-departmental mail, to the persons as shown on the attached service list.

Patricia
A. Fronta

Digitally signed by Patricia
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DN: CN = Patricia A.
Fronta, C = US, O = Case
Management, OU = MPSC
Date: 2006.05.26 14:40:09
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Patricia Fronta

Subscribed and sworn to before me
this 25th day of May 2006

Gloria Pearl
Jones

Digitally signed by Gloria Pearl Jones
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US, O = DLEG/MPSC, OU =
Executive Secretary
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Notary Public, Eaton County, Michigan
Acting in Ingham, County, Michigan
My Commission expires June 5, 2007

SERVICE LIST FOR DOCKET # U – 14706
DATE OF PREPARATION: 05/26/2006

CASE #

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