

STATE OF MICHIGAN
DEPARTMENT OF ATTORNEY GENERAL



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ATTORNEY GENERAL

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July 20, 2006

Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, Michigan 48909

Dear Ms. Kunkle:

Re: *Edison Sault Electric Company*
MPSC Case No. U-14703 (e-file/paperless)

Enclosed for filing is the official Exhibit S-1 that was admitted into evidence at the June 27, 2006 hearing.

Sincerely,

A handwritten signature in black ink, appearing to read "Emmanuel B. Odunlami".

Emmanuel B. Odunlami (P66255)
Assistant Attorney General
Public Service Division

EBO:la
Enc.

Discovery Request 2 of the MPSC Staff

What does Edison Sault expect to receive for the \$2,370,000 in pooled capacity payments?

Response

By participating in the pooled capacity agreement in the JOA, Edison Sault is able to meet its load obligations and its capacity reserve requirements through the pooled capacity. In 2005, the Mid America Interconnected Network (MAIN) reliability area, which included the service territories of We Energies and Edison Sault, required each utility member to maintain a minimum 15% capacity reserve requirement. The 15% minimum capacity reserve level has been used in the calculation of the amount of pooled capacity to be reserved by Edison Sault. For 2006, the ReliabilityFirst Corporation became the successor to MAIN for We Energies and Edison Sault, and it will maintain the same capacity reserve requirements that MAIN used in 2005.

Additionally, the pooled capacity obtained by We Energies represents a portfolio of capacity resources which include short, medium and long-term capacity agreements. Without the JOA, Edison Sault would not be able to obtain a capacity portfolio as diverse as the pooled capacity, and Edison Sault could be harmed by over-reliance on a particular type of contract. For example, if Edison Sault entered a long-term contract, and the price for short-term capacity dropped significantly, Edison Sault would not be able to take advantage of short-term capacity agreements.

Finally, the capacity pooling arrangement does not require Edison Sault to take energy from the specific pooled capacity resources. Instead, the JOA has separate provisions for the price of energy. This is important because much of the pooled capacity is natural gas fired, which tends to have an energy strike price that is higher than the market price that Edison Sault pays for energy under the JOA.

Without the pooled capacity resources, Edison Sault would not only have insufficient reserves, it would not have sufficient capacity to meet its peak loads (see ABATE Discovery Request 15, Document 2, Capacity workpapers). If the JOA energy and capacity were not available, and such requirements were not able to be replaced from another source, Edison Sault would have to run its higher cost diesel generating units and impose outages on its customers on a daily basis.

If Edison Sault attempted to meet the electrical requirements of its customers by purchasing energy on the short term markets (without reserving sufficient capacity), it would expose itself and its customers to significant risks of higher costs and forced interruptions. It would also be operating in a manner inconsistent with generally accepted good utility practice. If the entire electric industry operated in this manner, customers would be exposed to high costs and frequent outages.

Respondent

Lee Baatz

MICHIGAN PUBLIC SERVICE COMMISSION

FILE U-14703

EXHIBIT NO. S-1

DATE 6-22-06 UPenn REPORTER