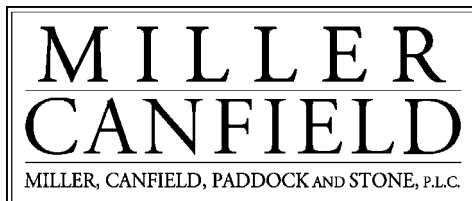


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June 8, 2006

Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way, Suite 7
Lansing, MI 48911

Re: Wisconsin Electric Power Company
2006 PSCR Plan and Factors
MPSC Case No. U-14707

Dear Ms. Kunkle:

Enclosed for electronic filing in the above-captioned matter please find the Reply Brief of Wisconsin Electric Power Company. Also enclosed is a Proof of Service. If you should have any questions, please advise.

Very truly yours,

MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

Ronald W.
Bloomberg

Ronald W. Bloomberg

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Stone, PLC
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RWB/lab

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 power supply)
cost recovery plan and authorization of monthly)
supply cost recovery factors for the calendar year)
2006.)

Case U-14707
[e-file]

PROOF OF SERVICE

STATE OF MICHIGAN)
)ss
COUNTY OF INGHAM)

Lisa A. Becker, being first duly sworn, deposes and says that on June 8, 2006, she served a true copy of ***Reply Brief of Wisconsin Electric Power Company*** upon the following parties by depositing the same in a United States postal depository enclosed in an envelope bearing postage fully prepaid, plainly addressed. The parties were also served by electronic mail.

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

Edith Loomis

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Edith D. Loomis
State of Michigan, County of Ingham
My Commission Expires: December 5, 2006

Lisa Becker

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Lisa A. Becker

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * *

In the matter of the application of)	
WISCONSIN ELECTRIC POWER COMPANY)	
for approval of a power supply cost recovery)	Case No. U-14707
plan and factors for the calendar year 2006.)	
_____)	

REPLY BRIEF OF WISCONSIN ELECTRIC POWER COMPANY

I. INTRODUCTION

On May 26, 2006, Wisconsin Electric Power Company ("WEPCO" or "Company") filed its Initial Brief supporting approval of its PSCR plan, factors and forecast. On that same date, Intervenor Tilden Mining Company, L.C. and Louisiana-Pacific Corporation ("Tilden/LP") filed a joint initial brief. Tilden/LP did not challenge the reasonableness or prudence of WEPCO's decisions to obtain its power supply in the manner set forth in the Company's Power Supply Cost Recovery ("PSCR") plan for 2006 or five-year forecast, but seek to have power supply costs reduced by \$125,284,229 through the disallowance of recovery of a portion of MISO costs and offsetting various revenues against PSCR costs. In lieu of filing an initial brief, the Michigan Public Service Commission Staff ("Staff") filed a statement in support of WEPCO's PSCR plan, as filed, and recommended approval of WEPCO's proposed PSCR factor of \$0.01613/kWh.

In replying to the three adjustments proposed by Tilden/LP, WEPCO notes that evidence and argument relevant to each proposed adjustment was addressed in WEPCO's Initial Brief. WEPCO will not repeat the same evidence and argument in this Reply Brief but may cross-reference to same and requests that this Reply Brief be read in conjunction with its Initial Brief. For the reasons set forth below, Tilden/LP's proposed

adjustments to the PSCR factors should be rejected as they: (i) are based upon erroneous statements of Commission precedent and the evidence presented; and (ii) are without merit and evidentiary support. WEPCO's proposed PSCR factor of \$0.1613/kWh should be approved.

II. REPLY TO TILDEN/LP

A. Tilden/LP's Claim That MPSC Precedent Requires That Revenues From Firm Wholesale Sales to Municipalities and WPPI Be Offset Against PSCR Costs Is Erroneous And Should Be Rejected.

Tilden/LP argue¹ (Brief, pages 2-7) that MPSC precedent requires that any net

¹ By letter served on the day before Reply Briefs were due, Tilden/LP unilaterally sought to withdraw, but yet preserve for the reconciliation proceeding, its claim that MPSC precedent regarding third-party revenues requires that revenues from Non-Opportunity Sales to Michigan municipals and WPPI be offset against PSCR costs. For several reasons, WEPCO opposes such withdrawal and requests that the PFD and MPSC Order in this PSCR plan proceeding affirm the Commission's historical treatment for PSCR purposes of revenues from Opportunity Sales and Non-Opportunity Sales.

First, the issue of the treatment of revenues from these sales has been substantively litigated in this proceeding. Tilden raised the issue through discovery requests (e.g., TM-WE-075) regarding the rates paid by the City of Crystal Falls. When the Company objected to such request as irrelevant, Tilden filed a Motion to Compel. The Company replied to the Motion and a hearing was held on April 4, 2006. At that hearing, ALJ Nickerson ordered the Company to provide the information sought by Tilden. (2 Tr 29) The issue was again raised during cross-examination of the Company's witness. (3 Tr 122-125) Following argument on the relevancy of the information, counsel for Tilden/LP withdrew the question. (3 Tr 127) Tilden/LP had an opportunity to present evidence relevant to the issue in the prefiled the testimony of Mr. Phillips. However, after the closing of the presentation of the Company case, Intervenor announced that they decided not to present the testimony that they had pre-filed. (3 Tr 176) Intervenor then raised this issue in their Initial Brief. Now, however, just before reply briefs are due, Intervenor announce that they are not pursuing this issue in this proceeding so that they can raise it again in another proceeding.

Second, there is no basis for not ruling on the issue in the instant proceeding. Commission precedent on this matter is a historical fact, as evidenced by its orders and the records in proceedings before it. Such information was available to Intervenor throughout this proceeding. No new developments or change in circumstances warrant a deferral and relitigation of this issue in the PSCR reconciliation proceeding. The only basis stated in Intervenor's request to withdraw is their tacit admission that they failed to give this issue the thorough and appropriate consideration it deserved.

Third, resolution of this issue in this proceeding is in the public interest and the interest of the Company. MCL 460.6j(12) favors resolution of issues in PSCR Plan proceedings while reserving reconciliation proceedings for an issue which "was not considered adequately at the previously conducted power supply and cost review." The resolution of this issue directly affects the level of PSCR factors to be charged during the year and outcome of the PSCR reconciliation. If resolution of this issue is deferred until reconciliation, a change in the historical treatment of these revenues may require the Company to make additional refunds, including interest on same at a rate significantly above the Company's cost of borrowing.

Fourth, permitting withdrawal of this issue and deferral of a ruling on it allows for unnecessary relitigation of the same issues that have been raised in the instant case. For example, Intervenor have already served upon the Company numerous discovery requests in MPSC Case No. U-14264-R (2005 PSCR Reconciliation) for information on revenues from Non-Opportunity Sales and the costs incurred to make such sales. As in the instant case, it is the Company's position that such information is irrelevant to PSCR proceedings and that the Company should not be required to compile, prepare and present such irrelevant information. The Company understood that part of the reasoning underlying the ruling requiring it

revenues WEPCO may receive from sales to: (i) Michigan municipals; and (ii) Wisconsin Public Power, Inc. ("WPPI") must be offset against recoverable PSCR costs and seek to reduce recoverable PSCR costs by \$44,655,325, which Tilden/LP say is the cost of power used to serve the Michigan municipals and WPPI. Tilden/LP's claims and arguments: (i) misdescribe WEPCO's position and MPSC treatment of revenues from firm, wholesales to non-PSCR customers; (ii) are without merit; and (iii) would result in unlawful, unreasonable and confiscatory rates. Tilden/LP's position should be rejected.

Tilden/LP inaccurately describe the Company's position on third-party revenues, stating:

"...WEPCo has divided into two separate categories which it calls (i) 'Municipal sales' and (ii) 'opportunity sales.' (Brief, page 2)

The Company does not divide sales to non-PSCR customers into these two categories. In the projections underlying the 2006 PSCR Plan, the Company divides its non-PSCR sales revenues into two categories: (i) Opportunity Sales (*e.g.*, non-firm sales of available energy into the PJM market and to Edison Sault, which the Company offsets against PSCR costs); and (ii) other sales (*e.g.*, sales to Wisconsin customers, firm sales to wholesale customers [*e.g.*, Michigan municipals and WPPI] at FERC approved rates, and Michigan special contract customers), of which the Company's obligation to serve is included in its power supply planning and the cost of which is excluded from the cost of service used in setting Michigan tariff base rates. To reduce the likelihood of ambiguity, WEPCO will refer to these non-PSCR sales as: (i) Opportunity Sales; and (ii) Non-Opportunity Sales.

(Text of Footnote 1 cont'd)

to provide such information in the instant case was possible uncertainty at the early stages of the proceeding as to how the Commission would rule on this issue. A ruling on this issue in this instant case would remove such unneeded uncertainty.

For all these reasons, WEPCO requests that the Commission expressly address and reaffirm its historical treatment of revenues from Opportunity Sales and Non-Opportunity Sales.

As explained in WEPCO's Initial Brief, pages 17-19, the material distinction between the two types of sales is not the identity of the customer (*i.e.*, municipal or WPPI vs. others), but the basis upon which the sale is made and how it is treated for ratemaking purposes.² Opportunity Sales are made from available energy. In contrast, the capacity and energy required to make Non-Opportunity Sales is included in the development of the Company's total peak month demand obligations (Exhibit A-1) and the costs related thereto are excluded from the cost of service underlying Michigan tariff rates. (3 Tr 137-138) Tilden/LP's characterization of the only distinction between Opportunity Sales and Non-Opportunity sales as being that some are made to municipal customers or WPPI erroneously misstates the basis for the distinction and Tilden/LP's argument fails to even address this critical distinction.

Tilden/LP's argument that Commission precedent requires that revenues from Non-Opportunity sales be credited against PSCR revenues is unsupported and erroneous. Tilden/LP has not cited any instance establishing that the 'third-party' revenues the MPSC has offset against PSCR costs include revenues from Non-Opportunity Sales.

Rather, Tilden/LP relies exclusively on statements in prior MPSC orders using the phrase 'third-party sales' as requiring offsets in all cases. However, Tilden/LP does so without any investigation or analysis of what revenues are included or not included within that phrase as it is applied in the context of the facts presented. Yet, Tilden/LP's position in this case belies the all-encompassing construction of the phrase 'third-party revenues' it

² Although in this 2006 PSCR Plan case, WEPCO has not projected any Opportunity Sales to Michigan municipalities or to WPPI, if such a sale occurred on an "opportunity" basis, the net revenues from such sale would be offset against PSCR costs in the PSCR reconciliation. For example; in its 2005 PSCR Reconciliation proceeding, MPSC Case No. U-14264-R, WEPCO has offset against PSCR costs the net revenues from Opportunity Sales to Marquette Board of Power and Light and WPPI.

advocates, as Tilden/LP's limited disallowance implicitly concedes that at least revenues from some non-PSCR 'third party' sales (e.g., Wisconsin retail, special contracts) are not offset against PSCR costs.

Tilden/LP's argument that established Commission precedent requires that WEPCO offset revenues from Non-Opportunity Sales against PSCR costs erroneously describes Commission actions, decisions and precedent. When the statements in the Commission orders cited by Tilden/LP are analyzed in the context of the facts presented, they clearly support the Company's historical treatment of revenues from Non-Opportunity Sales.

For example, Tilden/LP (Brief, page 4) quotes from the Commission's December 20, 2002 Order in Re Consumers Energy Co, MPSC Case No. U-13380 in support of its argument that municipal sales must be offset against PSCR costs. However, Tilden/LP has not shown that the revenues offset against PSCR costs in MPSC Case No. U-13380 included any revenues from sales: (i) to municipalities; or (ii) sales, the cost of which were excluded from the cost of service used to set Consumers Energy's tariff base rates. Rather, the 'third-party sales' referred to in Case No. U-13380 did not even include any sales to municipalities. In MPSC Case No. U-13380, Mr. William E. Garrity testified:

Q. What are third party sales?

A. For use in the stranded cost calculation (Case No. U-12639), the Commission has defined third party sales as wholesale power sales to parties externally connected to the Michigan Electric Coordinated System (MECS). Examples of such parties include utilities such as AEP and Ontario Hydro and power marketing and trading companies such as Dynegy and Aquila. In the year 2000, Consumers Energy made third party sales to approximately 32 counterparties. These sales represent revenues that offset power supply costs. (4 Tr 607)

In MPSC Case No. U-13380, Mr. Garrity also listed on Exhibit A-38 each entity (i.e., utility and power marketing and trading companies) to which 'third-party' sales were made in 2000-2001. None of the entities listed was a Michigan municipality. Tilden/LP has not

shown that the cost to serve any of the utility/power marketing customers in MPSC Case No. U-13380 was excluded from the cost of service underlying Consumers Energy's Michigan tariff base rates. Tilden/LP has not shown that the sales offset against Consumers Energy's stranded costs in MPSC Case No. U-133380 were anything other than Opportunity Sales. Thus, neither the description of 'third-party sales', nor the customers specifically identified in MPSC Case No. U-13380 supports Tiden/LP's claim that Commission precedent requires that revenues from Non-Opportunity Sales to Michigan municipals and WPPI be offset against PSCR costs.

In their Brief, page 4, and at the hearing (3 Tr 122-123), Tilden/LP also cite to the treatment of off-system sales revenues by The Detroit Edison Company as supporting their argument. However, at least as far back as 2004³, Detroit Edison has excluded from revenues credited to PSCR customers, the revenues from sales to its jurisdictionalized FERC wholesale full requirements customers. For example, in Detroit Edison's 2004 PSCR Reconciliation proceeding, MPSC Case No. U-13808-R, Mr. Byron testified:

- Q. What are third party wholesale power sales?
- A. Third party wholesale power sales are the physical wholesale electric sales made by the Company to other utilities and wholesale marketers under FERC-approved tariffs. These are wholesale sales the Company made in addition to retail bundled sales and wholesale full requirements customer sales. (2 Tr 70)

Similarly, in Detroit Edison's 2005 PSCR Plan case, MPSC Case No. U-14275 Mr. Byron testified:

- Q. What are third party wholesale power sales?
- A. Third party wholesale power sales (third party sales) are wholesale sales made by the Company to other utilities and wholesale power

³ Detroit Edison's 2004 PSCR plan, MPSC Case No. U-13808, was its first PSCR Plan filing since the institution of the rate freeze by Public Act 141 of 2000.

marketers under FERC approved tariffs. These third party sales do not include the Company's jurisdictionalized FERC wholesale for resale customers (City of Croswell, Village of Sebewaing, Thumb Electric Cooperative, City of Detroit Public Lighting Department, and Wolverine Power Supply Cooperative). (5 Tr 375)

On cross-examination, Mr. Byron testified:

Q -- what's the distinction between those jurisdictionalized wholesale for resale sales and the third-party wholesale sales that you're discussing there?

A The distinction is the jurisdictionalized FERC wholesale for resale customers are part of our system requirements, our net system output, where the third-party sales are discretionary sales and are not part of the net system output. So the jurisdictionalized sales are a full- or partial-requirements customer that we, by tariff, have requirement to serve. And the third-party sales into the wholesale market are discretionary sales. (5 Tr 393)

In its September 20, 2005 Order in MPSC Case No. U-14275, the Commission approved Detroit Edison's PSCR plan and factors as filed. Thus, the Commission did not require that revenues from jurisdictionalized FERC full requirement wholesale sales (including such sales to Michigan municipalities) be offset against PSCR costs. Detroit Edison has presented its PSCR plan and factors on this same basis in its 2006 PSCR Plan, MPSC Case No. U-14702. (See Direct Testimony of Mr. Byron, 4 Tr 417). The Commission 'precedent' with regards to Detroit Edison is to offset revenues from opportunity sales, but not offset revenues from non-opportunity sales.

The Commission's discussion and treatment of third-party sales in its June 30, 2005 Order in Re Consumers Energy Co., MPSC Case No. 14274 also does not support Tilden/LP's position. Tilden/LP has not cited any evidence or discussion from MPSC Case No. U-14274 showing that the revenues credited against PSCR costs included revenues from Non-Opportunity Sales. Rather, the description of third-party revenues from that case recognizes that the sales being offset against PSCR costs are different than FERC

jurisdictionalized ('non-opportunity') sales. In MPSC Case No. U-14274, the Commission described the revenues credited against PSCR costs as being received "from selling unneeded capacity or energy." In contrast, in MPSC Case No. U-14274, Consumers Energy's witness Mr. Lincoln D. Warriner included the projected wholesale sales to Alpena Power Company and Edison Sault in the sales forecasts. (See 3 Tr 446) Thus, such sales, like WEPCO's Non-Opportunity Sales are not from "unneeded capacity." WEPCO's treatment of revenues from Non-Opportunity Sales is not inconsistent with the description in MPSC Case No. U-14274 of the types of revenues to be offset against PSCR costs.⁴

The Commission precedent most directly applicable to WEPCO's treatment of revenues from sales to third-parties is the Commission's consistent prior treatment of off-system sales by WEPCO. The Commission has consistently approved, in repeated PSCR plan and reconciliation proceedings, WEPCO's treatment of revenues from Opportunity Sales and Non-Opportunity Sales. Tilden/LP simply chooses to ignore such precedent. Nothing has changed in the instant PSCR plan case to warrant a change in such treatment.

Tilden/LP's claim (Brief, pages 5-6) that "WEPCo is asking ratepayers to pay for the costs of all third party sales" and "is effectively asking to be paid twice for the same costs," is without merit or justification. Michigan PSCR customers are being charged for the cost (calculated at the average system costs) of the energy Michigan PSCR customers purchase. This is the manner in which PSCR costs have been historically calculated for

⁴ The treatment of 'third party' sales in Wisconsin Public Service Corporation's PSCR proceedings appears to be consistent with WEPCO's position as Wisconsin Public Service Corporation describes the type of revenues being offset against PSCR costs as "Non-Firm Sales" revenues. See e.g., MPSC Case No. U-14272, Direct Testimony of John G. Guntlisbergen, pages 5-6, 12 and Exhibit JGG-1.

WEPCO and other Michigan utilities.⁵ Calculating PSCR factors based upon system average costs does not mean that PSCR customers are paying any part of the costs to provide service to non-PSCR customers. For PSCR purposes, the power supply cost to serve each customer (whether a PSCR customer or not) is the average system cost. Each customer is allocated power supply costs for the energy he uses at the system average cost. Charging PSCR customers on this basis does not mean that they are paying for the cost to provide energy to other customers. Rather the undisputed evidence is that obtaining power supply on a total system basis results in lower costs for WEPCO's PSCR customers. (3 Tr 155). Tilden/LP's argument that PSCR customers are paying the cost to provide energy to non-PSCR customers is without merit and, as such, does not provide any justification for crediting PSCR customers with revenues from Non-Opportunity Sales.

For these reasons, and the reasons set forth in WEPCO's Initial Brief, pages, 17-19, Tilden/LP's request to have revenues from Non-Opportunity sales to Michigan municipalities and WPPI offset against PSCR costs should be rejected.

B. PSCR Costs Should Not be Reduced by MISO Revenue Sufficiency Make Whole Credits When the Generation and Costs from MISO's RAC Operation of the Company's Facilities Are Not Included in the PSCR Plan.

Tilden/LP's Brief, pages 7-10, argues that PSCR costs should be reduced by \$72,778,521 on account of MISO revenue sufficiency make whole credits Tilden/LP projects the Company may receive in 2006. Tilden/LP base this argument on their claim (Brief, page 8) that the proposed PSCR factor "includes the annualized costs of the non-economic operation of WEPCo's generating units..." This claim is false.

⁵ See e.g., discussion of use of average system costs in August 31, 1999 Order, page 9-10, in Re Consumers Energy Co, MPSC Case No. U-11180-R. See also September 20, 2005 Order in Re Detroit Edison, MPSC Case No. U-14275

As stated clearly in the evidence (3 Tr 165; Exhibit LP-43) and presented in the Company's Initial Brief, pages 13-15, the PSCR costs and factors do not include any energy generated by the Company (or the cost thereof) for RAC operations. Tilden/LP's assertions to the contrary are without evidentiary support, but are based upon an unreasonable misreading of Mr. Lorden's testimony.

Contrary to Tilden/LP's argument, Mr. Lorden did not testify that the cost of operating the Company generating units for RAC operations are included in the MISO Uplift costs presented in Exhibits A-3 and A-11. Rather, he expressly stated his understanding that the PSCR costs did not include fuel costs related to the RAC operation of the Company's generating units, testifying:

“...it is my understanding in the plan case we did not include RSG make whole payments because we did not have additional fuel costs to offset those RSG make whole payments. (3 Tr 117)

It is clear from the evidence (Exhibit LP-43) that the revenue sufficiency costs included in the MISO Total Uplift Costs are amounts the Company is billed by, and pays to, MISO as the Company's share of MISO obligation to reimburse others for generation they provided for RAC operations. The evidence is unequivocal and unambiguous in this regard. Only by ignoring the testimony and exhibits cited above can Tilden/LP argue that Mr. Lorden was testifying that the MISO Uplift costs included the cost of the Company's fuel for its own generation for RAC operations.

Mr. Lorden's testimony did not contradict in any way the testimony of Mr. Schumacher or Exhibit LP-43. Rather, the evidence is entirely consistent in this regard. Mr. Lorden addressed the obligation to pay MISO for RAC operations by others. In contrast, Mr. Schumacher addressed RAC operations by the Company. Tilden/LP's artfully deceptive argument cannot change the evidence of record into something it is not.

Tilden/LP's claim is erroneous and without basis. As Tilden/LP acknowledge (Brief, p 8) "including the revenues without the costs" is inappropriate. Tilden/LP's proposed offset should be rejected.

C. The \$7,850,045 Paid to MISO As Part of the Marginal Loss Component of the Locational Marginal Price for Power Purchased Through MISO Is Properly Included in PSCR Costs and Factors and Is Not Otherwise Recovered Through The Company's Line Loss Factor.

Tilden/LP's Brief, pages 10-15, claims that inclusion in PSCR cost and factors of \$7,850,045 paid to MISO as part⁶ of the Marginal Loss Component of power purchased through MISO is unreasonable because such amount is already being recovered through application of the 1.06 line loss factor incorporated into the Company's PSCR Clause. Tilden/LP claim that by including this component of MISO charges in its PSCR factor, the Company has calculated its factor in a manner that is fundamentally different from the manner used in the past and that the Company admits that it is already recovering the \$7,850,045 in the MPSC approved line loss factor. These claims are erroneous and should be rejected.

First, there is no dispute that the \$7,850,045 at issue is part of the amount projected to be charged to the Company by MISO for purchased power pursuant to MISO's FERC-approved tariff. As such, it is a power supply cost. Furthermore, when (as in the instant case) the decision to purchase energy from MISO pursuant to MISO's FERC-approved tariff is reasonable and prudent, such rates charged by MISO are *per se* reasonable and federal preemption prohibits this Commission from reexamining or disallowing recovery of the rates charged. See *ABATE v. MPSC*, 192 Mich App 19 (1991), *Mississippi Power & Light Co. v. Mississippi ex rel Moore*, 487 U.S. 354, 108 S.Ct. 2428, 101 L.Ed.2d 322

⁶ As testified by Mr. Lorden, the PSCR plan includes only the incremental cost of the Marginal Loss Component above the MISO Loss Distribution (average losses). (3 Tr 97)

(1988), *Nantahala Power & Light Co. v. Thornburg*, 476 U.S. 953, 106 S.Ct. 2349, 90 L.Ed.2d 943 (1986) In the instant case, Tilden/LP has not challenged the Company's un rebutted evidence that purchasing energy pursuant to the MISO FERC-approved tariff was reasonable and prudent. In such circumstances, federal preemption prohibits this Commission from going behind the FERC-approved tariffs and challenging recovery of particular components of such rates as unreasonable.

Tilden/LP's claim that the Company is already recovering the \$7,850,045 charged by MISO through the line loss factor included in the PSCR Clause is erroneous. The line loss factor simply adjusts the average cost (\$/MWh) of power supply incurred at the generation level to account for the fact that PSCR factors are applied to lower sales volumes. If the average cost of power supply at the generation level is not adjusted by the line loss factor, multiplying that unadjusted average cost by lower sales volumes will under-recover the costs incurred. The line loss factor allows the PSCR Factors to recover whatever costs are included in the PSCR costs, but only those amounts included in such costs.

Application of the line loss factor will not allow for the recovery of any amount not included in the total recoverable PSCR costs. Thus, if the \$7,850,045 paid to MISO is not included in the recoverable PSCR costs, application of the line loss factor to recoverable PSCR costs cannot (as a matter of basic mathematics) provide for the recovery of such amount. If the amount paid to MISO is not included in PSCR costs, the computation to adjust recoverable costs from the generation level to the sales level will not provide for the recovery of such costs. To the contrary, any amount excluded from PSCR costs will not be recovered by the line loss adjustment. Tilden/LP's argument that the line loss adjustment already recovers the \$7,850,045 projected MISO charges even if such

amounts are not included in the PSCR costs to be recovered is false. Contrary to Tilden/LP's argument (Brief, page 12), nothing in Mr. Lorden's testimony can reasonably be construed as an admission that the line loss adjustment will recover the \$7,850,045 paid to MISO if such amount is not included in recoverable PSCR costs.

The Company is not seeking to recover the \$7,850,045 component of the MISO tariff twice. The Company's request is to be allowed to recover such amount by including it in recoverable PSCR costs. Such cost (like all PSCR costs), calculated at the generation level, must be subject to the line loss factor if application of the PSCR factor to projected sales levels is to permit full recovery.

Contrary to Tilden/LP's claim (Brief, page 14), the Company is not calculating its "PSCR factor in a manner that is fundamentally different from ... the past." In all prior PSCR proceedings, the Company has: (i) determined its recoverable power supply costs on an average cost basis (\$/MWh); (ii) subtracted the base cost of power supply included in base rates from such amount; and (iii) multiplied the difference by the line loss factor. This is precisely the methodology used in Exhibit A-11 in the instant case.

What is different in the instant case is that the Company is now a Market Participant in the MISO Day-2 market and the Company purchases its requirements pursuant to MISO tariffs at Locational Marginal Prices, which include a component entitled the Marginal Loss Component. That amount paid to MISO is a cost of power supply, like all other amounts paid to MISO for power supply. Tilden/LP has not provided any valid basis for denying the recovery of such costs. Their request for denial of the recovery of this portion of MISO costs should be rejected.

III. CONCLUSION AND RELIEF

The record evidence in this proceeding supports approval of WEPCO's 2006 PSCR plan and factors of 16.13 mills per kWh, and its five-year forecast. WEPCO's application, therefore, should be approved as filed.

Respectfully submitted,

WISCONSIN ELECTRIC POWER COMPANY

Dated: June 8, 2006

Ronald W.
Bloomberg
By: _____

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