

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	)	Case No. U-14707
for approval of a power supply cost recover plan	)	PAPERLESS FILING
and authorization of monthly power supply cost	)	
recovery factors for calendar year 2006.	)	

Initial Brief of
Louisiana-Pacific Corporation and
Tilden Mining Company, L.C.

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NOW COME Louisiana-Pacific Corporation and Tilden Mining Company, L.C., by and through their attorneys, Fraser Trebilcock Davis & Dunlap, P.C., and submit their Initial Brief.

INTRODUCTION

The universal test of the lawfulness of utility rates is that such rates be “just and reasonable.” *Northern Michigan Water Co v Michigan Public Service Comm’n*, 381 Mich 340 (1968). In a power supply cost recovery (“PSCR”) case, utilities are entitled to recover their reasonably and prudently incurred costs of fuel and purchased power. MCL 460.6(j)(6). If the utility’s costs for fuel and purchased power are not reasonable and prudent, Michigan law requires the Commission to disapprove them.

The utility bears the burden of proving that its projected costs for fuel and purchased power are reasonable and prudent, MPSC Case No. U-13562, June 27, 2003 Order, p. 3, and WEPCo has admitted in previous MPSC proceedings that it bears this burden, MPSC Case No. U-13107, March 12, 2003 Order, p. 2.

In this PSCR plan case, WEPCo seeks to recover projected Total Power Supply Costs of \$951,219,864¹ through the application of a PSCR factor of \$0.01613/kWh.²

WEPCo has failed to satisfy its burden of proving that all of its projected costs are reasonable and prudent. In fact, WEPCo’s claimed Total Power Supply Costs are unreasonably and imprudently overstated by \$125,283,891 for three reasons: (1) WEPCo’s PSCR calculation fails to offset \$44,655,325 of third party sales revenue against WEPCo’s PSCR costs, as required by MPSC precedent; (2) WEPCo’s PSCR calculation fails to offset \$72,778,521 of revenue sufficiency make-whole payments that it will receive in 2006 against

¹ Ex. A-11, p. 1, line 1.

² Ex. A-11, p. 2, line 7.

its claimed 2006 MISO revenue sufficiency costs; and (3) WEPCo's PSCR calculation includes \$7,850,045 in line loss charges in excess of the 1.06 line loss factor authorized by the Michigan Public Service Commission in MPSC Case No. U-12725.

Reducing WEPCo's claimed Total Power Supply Costs by \$125,284,299 reduces its proposed PSCR factor from \$0.01613/kWh to \$0.01209/kWh.

1. WEPCo HAS IMPROPERLY FAILED TO OFFSET \$44,655,325 OF REVENUES FROM THIRD PARTY SALES TO MICHIGAN MUNICIPALITIES AND WPPI AGAINST ITS COSTS AS REQUIRED BY MPSC PRECEDENT.

WEPCo's claimed Total Power Supply Costs are unreasonably and imprudently overstated because WEPCo's calculation of its proposed PSCR factor fails to offset its PSCR costs with revenues from "municipal sales," as required by MPSC precedent.

WEPCo's Net System Requirements are projected to be 32,785,257 MWHs.³ WEPCo's Net System Requirements include third party sales, which WEPCo has divided into two separate categories which it calls (i) "municipal sales" and (ii) "opportunity sales."⁴

WEPCo credits revenues from "opportunity sales" against its PSCR costs but does not credit revenues from "municipal sales" against its PSCR costs,⁵ even though WEPCo includes the costs to serve the municipal load in its Total Power Supply Costs.

WEPCo's "municipal sales" include 49,147 MWHs of projected sales to Michigan municipalities⁶ and 1,490,161 MWHs of projected sales to Wisconsin Public Power, Inc. ("WPPI").⁷

³ Ex. A-11, p. 1, line 2.

⁴ Lorden testimony, Tr., Vol. 3, p. 118. As discussed hereinafter, this is not a distinction that is recognized by Michigan law or the MPSC and, in fact, contradicts the MPSC's definition of third party revenues.

⁵ Lorden testimony, Tr., Vol. 3, pp. 104 & 120 and Ex. A-3, p. 4.

⁶ Lorden testimony, Tr., Vol. 3, p. 118. See also, Ex. A-1, p. 1, line "Municipal Sales" and Ex. A-2, p. 1, line "Municipal Sales."

⁷ Lorden testimony, Tr., Vol. 3, p. 119. See also, Ex. LP-35.

WEPCo's Total Power Supply Costs of \$951,219,864 include the costs associated with all third party sales, including both "municipal sales" and "opportunity sales." Although WEPCo failed to offset the revenues from its "municipal sales," it admitted that the costs associated with those sales are included in the costs that it seeks to recover from its ratepayers. Specifically, WEPCo's Total Power Supply Costs include, among other costs, the costs of fuel and purchased power needed to serve both the Michigan municipalities and WPPI. As Mr. Lorden testified,

Q. WEPCo's total power supply cost of \$951,219,864 includes the cost of fuel and purchase power related to both the third-party sales to the Michigan municipalities that were previously identified and to WPPI, does it not?

A. Yes, it does.⁸

WEPCo also admits that it did not offset any of the costs of fuel and purchased power needed to serve either the Michigan municipals or WPPI with any of the revenues it will receive from the Michigan municipals or WPPI in 2006.

Q. However, WEPCO has not offset its projected 2006 Total Power Supply Costs with any projected revenues from any third-party sales to the Michigan municipalities or to WPPI, has it?

A. That is correct.⁹

WEPCo's treatment of revenues from "municipal sales" should be rejected for several reasons.

Initially, WEPCo's treatment of revenues from "municipal sales" should be rejected because it is inconsistent with established MPSC precedent holding that third party revenues

⁸ Lorden testimony, Tr., Vol. 3, pp. 119-120. See also, Lorden testimony, Tr., Vol. 3, pp. 93-94 and Exs. A-3 & 11.

⁹ Lorden testimony, Tr., Vol. 3, p. 120.

must be offset against PSCR costs. The MPSC has plainly stated in MPSC Case No U-13380 that a **“utility’s net revenues from the year’s third-party transactions are credited against power supply costs.”**¹⁰ WEPCo’s unilateral decision to not offset its municipal sales costs with revenues from those sales, contradicts this unequivocal Commission precedent.

The requirement that third party revenues must offset power supply costs is not a new requirement. At least as far back as 1989, the Commission has required utilities to offset their net third party revenues against their PSCR plan costs. The MPSC’s June 15, 1989 Order in Case No. U-8880 recognizes this in its computation of Detroit Edison’s PSCR factor for that year. It did so as follows:

“Based on the preceding findings, the costs to be recovered by Detroit Edison’s 1988 PSCR plan are as follows:

PSCR Costs per Detroit Edison		\$889,991,000
Less:		
Oil Cost Adjustments	\$6,183,000	
Nuclear Fuel Adjustments	2,267,000	
External Purchases Adjustment	14,563,000	
Belle River Buy-Back	134,000	
Sales to Third Parties	603,000	

Total Subtractions		23,750,000

Adjusted PSCR Costs:		\$866,241,000” ¹¹

The Commission also recognized the principle requiring utilities to offset their net revenues from third party sales against their PSCR costs in more recent cases. MPSC Case No U-14274, Consumers Energy’s 2006 PSCR Plan Case, is one such case. The parties in that case did not dispute the accepted proposition that net revenues from a third party should be offset against power supply costs because that basic proposition was seemingly accepted

¹⁰ MPSC Case No U-13380, December 20, 2002 Order, p. 13. Emphasis added.

¹¹ MPSC Case No. U-8880, June 15, 1989 Order, p. 37.

by all parties.¹² Rather, the issues which were presented, but not decided, were the appropriate amount of such offset and whether the third party revenues would be applied as an offset against Consumers' PSCR costs or against Consumers' stranded costs.¹³ WEPCo, by contrast, has simply refused to offset any part of its revenues from municipal sales against its PSCR costs, even though it has included its costs of fuel and purchased power to serve that municipal load in its Total Power Supply Costs.

WEPCo's treatment of revenues from "municipal sales" should also be rejected because it is inconsistent with the Michigan Public Service Commission's definition of "third party sales revenues" which the Commission has defined as follows: "Third-party sales revenues consist of payments the utility receives from selling unneeded capacity or energy to parties other than its own customers." MPSC Case No U-14274, June 30, 2005 Order, p. 11, fn 5. The MPSC does not distinguish between 'municipal sales' and 'opportunity sales,' as WEPCo has done in its proposed PSCR Plan. Moreover, no Michigan statute or regulation distinguishes between "municipal sales" and "opportunity sales."¹⁴ Because Michigan law and the MPSC do not distinguish between "municipal sales" and "opportunity sales," WEPCo's unilateral decision to do so should be rejected. WEPCo offsets its Total Power Supply Costs with revenues from "opportunity sales"¹⁵ and it should be similarly required to offset its Total Power Supply Costs with revenues from "municipal sales," as well. Since WEPCo is asking its ratepayers to pay for the costs of all third party sales, Commission

¹² Even the utility in that case, Consumers, proposed to offset \$17,420,000 of its net third party sales revenues against its PSCR costs.

¹³ WEPCo has never filed a stranded cost proceeding. Lorden testimony, Tr., Vol. 3, p. 128.

¹⁴ Wisconsin law does identify Opportunity Sales as such. See, Wisconsin PSC 117.03(14) and Wi Admin § 116.03. It is not clear, however, that WEPCo's Municipal Sales are not Opportunity Sales under Wisconsin law. Moreover, even Wisconsin law requires that Opportunity Sales be offset with revenues from those sales. Wisconsin PSC 117.05(2).

¹⁵ Ex. A-3, p. 4, "Sales."

precedent requires that the revenues from all third party sales must be offset against those costs.

WEPCo is effectively asking to be paid twice for the same costs. The Michigan municipals and WPPI will pay WEPCo for the power that the Company sells them. If WEPCo's proposed PSCR factor is approved, Michigan PSCR customers will also pay WEPCo for a portion of the fuel and purchased power that is needed to serve both the Michigan municipals and WPPI. As Mr. Lorden testified:

Q. So the average power supply costs for the entire system include the cost to serve Michigan municipal utilities and WPPI?

A. Yes, all customers.

Q. And so when the Michigan customers pay their PSCR factor, those costs, or a portion of those costs, are included in what Michigan PSCR customers would pay, correct?

A. A portion of the cost, the average cost, yes.¹⁶

This is neither reasonable nor prudent. WEPCo should not be paid twice for the same costs. WEPCo should be required to either: (i) exclude the costs incurred to serve the Michigan municipals and WPPI from its PSCR calculations or (ii) offset the revenues it will receive from the Michigan municipals and WPPI against the costs that the PSCR customers are being asked to pay.

Intervenors assert that WEPCo should be required to offset its Total Power Supply Costs with at least \$44,655,325 of revenues from 'Municipal Sales' calculated as follows:

1. WEPCo anticipates that it will make 1,539,308 MWHs of sales to the Michigan municipals and WPPI during 2006;¹⁷

¹⁶ Lorden testimony, Tr., Vol. 3, p. 141.

¹⁷ See footnotes 6 & 7 and related text.

2. WEPCo also estimates that its average power supply costs for 2006 will be \$29.01 MWh;¹⁸
3. Multiplying WEPCo's projected municipal sales (item 1 above) by its average power supply costs (item 2 above) yields an estimate of \$44,655,325 of revenues from municipal sales for 2006.

This is a very conservative estimate of WEPCo's revenues from its sales to the Michigan Municipals and WPPI. WEPCo admits that this represents only "some portion" of those revenues.¹⁹ Thus, making this adjustment will not reflect all of WEPCo's revenues from third party sales, but will at least avoid an unjust and unlawful double recovery. WEPCo's PSCR ratepayers should not be required to pay the costs of generating power that will be used to serve the Michigan Municipals and WPPI and which will not be used to serve those PSCR ratepayers.

2. WEPCo HAS IMPROPERLY FAILED TO OFFSET \$72,778,521 OF MISO REVENUE SUFFICIENCY MAKE WHOLE PAYMENTS THAT THE COMPANY WILL RECEIVE IN 2006 AGAINST ITS PROJECTED MISO REVENUE SUFFICIENCY COSTS.

WEPCo's claimed Total Power Supply Costs are also unreasonably and imprudently overstated because WEPCo's proposed PSCR factor calculation reflects MISO revenue sufficiency costs that WEPCo expects to pay to MISO in 2006, but improperly excludes the corresponding revenues that WEPCo will receive from MISO in 2006.

MISO generally dispatches generators in economic order.²⁰ When MISO is forced to dispatch generators out of economic order to maintain system reliability, MISO assesses "Revenue Sufficiency Guarantee" charges and payments in order to account for the non-economic operation of the generators.

¹⁸ Ex. LP-34.

¹⁹ Lorden testimony, Tr., Vol. 3, p. 121.

²⁰ Schumacher testimony, Tr., Vol. 3, pp. 158-159 and p. 164.

WEPCo's witness Schumacher testified that it is not appropriate to include revenue sufficiency payments for the non-economic operation of WEPCo's generating units without including the corresponding costs.²¹ In this regard, Mr. Schumacher testified that:

"To include such credits, without including the corresponding costs, would under-recover costs incurred."²²

WEPCo's proposed PSCR factor, however, includes the annualized costs of the non-economic operation of WEPCo's generating units without including the corresponding revenue sufficiency payments. Including generation costs in a PSCR factor without the corresponding revenues is no more appropriate than including the revenues without the costs, as Mr. Schumacher testified.

WEPCo's Total Power Supply Costs include revenue sufficiency costs. Exhibit A-11 includes "MISO-total uplift costs" of \$50,177,230.²³ WEPCo's "MISO-total uplift costs" include MISO revenue sufficiency guarantee costs. In this regard, Mr. Lorden testified as follows:

Q. I'm referring to two things, A-3, page 4 of 4, under the caption MISO Energy Market Costs. Why don't you look at that first and I'm going to trace it back.

A. Okay.

Q. That includes MISO Total Uplift Costs, does it not?

A. Yes, it does.

Q. And those are costs, correct?

A. Yes.

Q. Okay. And now Exhibit A-3 doesn't tell you what's included within that category of MISO Total Uplift Costs,

²¹ Schumacher testimony, Tr., Vol. 3, pp. 165-166.

²² Schumacher testimony, Tr., Vol. 3, p. 166.

²³ Ex. A-3, p. 4, which costs are carried over into Ex. A-11, line 1.

which is the reason that I've asked you to look at page 2 of your work papers, and is there a column there that says Uplift Costs?

A. Yes.

Q. And am I correct that that category of Uplift Costs does include revenue sufficiency guarantee costs?

A. In looking at my work paper, yes, uplift costs do include both day ahead and real-time revenue sufficiency guarantee uplift costs.²⁴

On cross-examination, Mr. Lorden explicitly admitted that his confidential work papers include \$8,302,760 of revenue sufficiency costs,²⁵ which costs were then used as the basis for calculating the \$50,177,230 of MISO Total Uplift Costs included in Exhibits A-3 and A-11.²⁶ This cross-examination testimony completely discredits Mr. Schumacher's undocumented rebuttal testimony that such costs were not included in the Company's 2006 PSCR plan and factors.²⁷ Obviously, Mr. Lorden included such costs in the calculation of WEPCo's PSCR factor without Mr. Schumacher being aware of that fact.

Although WEPCo's PSCR calculations include revenue sufficiency costs, they do not include any Revenue Sufficiency make whole payment revenues that WEPCo will receive in 2006.²⁸ On cross-examination, Mr. Lorden admitted that such revenues were not included in the Company's 2006 PSCR plan and factor.

Q. And has WEPCo included in its PSCR calculations the revenue sufficiency guarantee payments that it receives from MISO?

²⁴ Lorden testimony, Tr., Vol. 3, pp. 112-113. See also, Lorden testimony, Tr., Vol. 3, pp. 113-114.

²⁵ Lorden testimony, Tr., Vol. 3, p. 113. Mr. Lorden testified that his work papers included \$1,110,483 and \$7,192,277 of revenues sufficiency costs for the time period of April 1, 2005 through August 31, 2005.

²⁶ Lorden testimony, Tr., Vol. 3, p. 113.

²⁷ Schumacher testimony, Tr., Vol. 3, p. 165.

²⁸ Ex LP-25, p 2.

A. No, it has not.²⁹

WEPCo estimated its 2006 MISO revenue sufficiency costs based upon its 2005 MISO revenue sufficiency costs.³⁰ Utilizing WEPCo's 2005 MISO revenue sufficiency credits to estimate the Company's 2006 revenue sufficiency credits, MISO will pay WEPCo \$72,778,521 in revenue sufficiency make whole payments in 2006.³¹

Intervenors respectfully submit that WEPCo's Total Power Supply Costs are unreasonably and imprudently overstated by \$72,778,521, as described above, and should be reduced by that amount.

3. WEPCo HAS IMPROPERLY INCLUDED \$7,850,045 OF DUPLICATIVE LINE LOSS COSTS IN CONTRAVENTION OF MPSC PRECEDENT.

Finally, WEPCo has failed to meet its burden of proving that \$7,850,045 of transmission loss costs included within its Total Power Supply Costs is reasonable and prudent. In fact, the claimed amount is both unreasonable and imprudent, because it is duplicative of costs already being recovered through the application of the 1.06 line loss factor previously approved by the MPSC.

The demand for electricity that a utility must satisfy is the demand at the locations where it is used by the utility's customers. The power plants that generate that electricity are always located at some distance away from the locations where the electricity is used. As electricity travels from the power plants to the locations where it is used, some of that

²⁹ Lorden testimony, Tr., Vol. 3, p. 114. Mr. Lorden explicitly admitted that WEPCo has included the costs without including the revenues. Lorden testimony, Tr., Vol. 3, p. 117.

³⁰ MISO assessed WEPCo \$13,950,575 in revenue sufficiency charges during the period from April 1, 2005 through November 14, 2005. Ex. LP-11.

³¹ WEPCo received \$51,642,841 in MISO Revenue Sufficiency Payments from April 1, 2005 and November 14, 2005. That time period contains 259 days. \$51,642,841 divided by 259 days = \$199,393/day. \$199,393/day multiplied by 365 days = \$72,778,521.

electricity is lost.³² Thus, utilities must generate more electricity than they sell. Because a utility must generate more electricity than it sells, a loss factor is used to enable the utility to recover the cost of generating the lost power.

Loss factors enable Michigan utilities to recover the costs to generate lost power by increasing the price of the electricity they sell. In MPSC Case Nos. U-10428 and U-12725, as well as in other cases, the Michigan Public Service Commission authorized WEPCo to employ a line loss factor of 1.06³³ and thereby authorized WEPCo to increase the per kWh price of its electricity by 6%.

WEPCo's proposed PSCR factor includes the MPSC authorized line loss factor of 1.06.³⁴ However, WEPCo's proposed PSCR factor also includes an additional \$7,850,045 of MISO transmission loss costs in its Total Power Supply Costs of \$951,219,864.³⁵

WEPCo has offered no evidence that MISO somehow changed the nature or quantity of power lost at the transmission level. MISO is not a generator or supplier of electricity. It is merely a market administrator. The entities that were producing and selling electricity prior to the advent of MISO are still doing so and MISO has not changed that fact. Thus, the claimed amount of \$7,850,045 should be disallowed because WEPCo has failed to prove that it is not already recovering that amount and all of its other line loss costs through the application of the MPSC approved line loss factor of 1.06. In fact, as shown below, WEPCo

³² Lost power can be measured by the formula $P_{loss} = RI^2$ or Power loss is proportional to the resistance of the wire and the square of the current. See, http://en.wikipedia.org/wiki/Electric_power_transmission.

³³ September 16, 2002 Order, Case No. U-12725, Fifth Revised Sheet No. 14. WEPCo admits that the Commission established a 1.06 line loss factor for the Company. Lorden testimony, Tr., Vol. 3, pp. 107-109.

³⁴ Ex. A-11, p. 1, line 6.

³⁵ Page 4 of Ex. A-3 reflects \$46,832,347 in MISO transmission loss charges and \$38,982,302 in MISO transmission credits for a net MISO transmission loss cost of \$7,850,045. Lorden testimony, Tr., Vol. 3, pp. 106-196; Ex. A-11, p. 1, line 1 and Ex. A-3. See also, Schumacher testimony, Tr., Vol. 3, pp. 157. See also, MISO's FERC tariff makes clear that the cost of losses at the transmission level are included in the Marginal Losses Component of Locational Marginal Price. Midwest ISO, FERC Electric Tariff, Third Revised Volume No. 1, Section 28.5.

has admitted that it is already recovering the \$7,850,045 in the MPSC approved line loss factor of 1.06.

In MPSC Case Nos. U-10428 and U-12725, the MPSC approved WEPCo's use of a line loss factor of 1.06.³⁶ The 1.06 line loss factor authorized by the Commission is a 'composite' loss factor.³⁷ In other words, it covers the cost of power lost at both the transmission and distribution levels. As Mr. Lorden testified,

Q. And am I also correct that that composite number was intended to cover both distribution losses and transmission losses?

A. Yes, it is.³⁸

Upon further cross-examination, Mr. Lorden admitted that the \$7,850,045, which WEPCo seeks to recover in this proceeding, is already covered by the MPSC's loss factor of 1.06. In this regard, he testified as follows:

Q. So that loss number [i.e., the 1.06] would have covered the \$7,850,045 of MISO transmission losses . . . , correct?

A. That 1.06 refers to the loss, system losses, both transmission and distribution, that are needed to take the generation level costs that are shown on this exhibit and get them to the customer level basis for which the customer's factor is based.

Q. And the commission determined that a . . . composite loss factor of 1.06 covered all of those losses, correct?

A. That's correct.³⁹

³⁶ September 16, 2002 Order, Case No. U-12725, Fifth Revised Sheet No. 14. WEPCo admits that the Commission established a 1.06 line loss factor for the Company. Lorden testimony, Tr., Vol. 3, pp. 107-109.

³⁷ Lorden testimony, Tr., Vol. 3, pp. 107-109. See also, Ex. LP-31.

³⁸ Lorden testimony, Tr., Vol. 3, p. 108.

³⁹ Lorden testimony, Tr., Vol. 3, p. 109.

Despite the fact that the 1.06 line loss factor authorized by the Commission is a ‘composite’ loss factor which covers the costs to generate power lost at both the transmission and distribution levels, WEPCo’s proposed PSCR factor includes not only the MPSC approved line loss factor, but also includes \$7,850,045 of duplicative transmission loss costs.

WEPCo is asking permission to increase the prices it charges its customers for power lost at the transmission level in two separate, and duplicative, ways. WEPCo asks to both (i) increase its overall prices by 6% through the application of the 1.06 line loss factor authorized by the Commission,⁴⁰ and (ii) include \$7,850,045 of transmission loss costs in its Total Power Supply Costs.⁴¹ Stated another way, WEPCo is seeking to recover these costs twice.

Logically, WEPCo cannot be allowed to both increase its prices by 6% to cover all of its line loss costs and then include additional costs for some of those same transmission losses in its Total Power Supply Costs. Allowing WEPCo to both increase its overall prices by 6% and include \$7,850,045 of transmission loss costs in its Total Power Supply Costs constitutes a double recovery.

It is important to note that Mr. Lorden’s rebuttal testimony does not, in fact, unequivocally state that the Company is not recovering transmission losses twice. Mr. Lorden equivocates in this regard, stating only that “No, it is not the Company’s *intent* to overlap losses. Rather, the *intent* is to ensure that PSCR Plan costs and actual costs are accounted for on the same basis.”⁴² The Company’s “intent” is irrelevant. What is relevant is the Company’s requested 2006 PSCR factor and the costs that are reflected in that requested

⁴⁰ Ex. A-11, p. 1, line 6.

⁴¹ Ex. A-11, p. 1, lines 1.

⁴² Lorden testimony, Tr., Vol. 3, p. 97.

factor. Whether the Company intended to double recover or not, it is in fact recovering transmission losses twice.

It is also important to note that, by including \$7,850,045 of transmission loss costs in its Total Power Supply Costs, WEPCo has calculated its proposed 2006 PSCR factor in a manner that is fundamentally different from the manner in which the MPSC has calculated WEPCo's PSCR factor in the past. In its calculation of WEPCo's Base Costs, the MPSC did not include any costs for line losses in WEPCo's "TOTAL System Costs."⁴³ Rather, the Commission calculated WEPCo's "TOTAL System Costs" and then multiplied that amount by a loss factor of 1.06 in order to increase the Total System Costs by 6% to reflect line losses.⁴⁴ WEPCo's proposed 2006 PSCR factor calculation differs from what the Commission has done in the past. It both includes costs for transmission losses in WEPCo's "TOTAL System Costs" and also multiplies those costs by a loss factor of 1.06. As Mr. Lorden testified,

Q. And then when you apply the 1.06 loss factor you are therefore applying it to a number that already includes a cost for transmission losses?

A. That is correct.⁴⁵

If WEPCo believes that the procedure which the Commission established in MPSC Case No. U-12725 needs to be changed, then WEPCo should request that the Commission adjust its line loss factor in the Company's next base rate case. In that case, presumably, the Commission will not authorize WEPCo to recover transmission losses twice. Instead of

⁴³ Ex. LP-26, p. 2, line "MISO Energy Market."

⁴⁴ Id.

⁴⁵ Lorden testimony, Tr., Vol. 3, p. 110. See also, Lorden testimony, Tr., Vol. 3, p. 107.

initiating such a proceeding, however, WEPCo has unilaterally included \$7,850,045 of duplicative transmission loss costs in its Total Power Supply Costs in this PSCR proceeding.

Intervenors respectfully submit that WEPCo's proposed PSCR factor must be modified to be made consistent with the line loss methodology which the Commission adopted in MPSC Case No. U-12725 and other cases. The Commission should require WEPCo to exclude the \$7,850,045 of MISO transmission loss costs from its Total Power Supply Costs in line 1 of Ex. A-11.⁴⁶

In summary, WEPCo has failed to meet its burden of proving that the \$7,850,045 is reasonable and prudent. In fact, because WEPCo's proposed PSCR factor is inconsistent with the Commission's Order in Case No. U-12725, and because WEPCo's proposed PSCR factor permits WEPCo to recover transmission losses twice, it is neither reasonable nor prudent.

RELIEF REQUESTED

Intervenors respectfully request that WEPCo's Total Power Supply Costs be reduced by \$125,284,229 and that its proposed PSCR factor be reduced from \$0.01613/KWh to \$0.01209/KWh. Corrected as described above, the appropriate calculation of WEPCo's PSCR factor, using the formula set forth on Ex. A-11, is as follows:

	<u>TOTAL</u>
1. Total Power Supply Costs	\$825,935,973
2. Net System Requirements (MWH)	32,785,257
3. Average Power Supply Costs (\$/MWH)	25.19

⁴⁶ If, instead, the Commission were to require WEPCo to apply the 1.06 line loss factor only to its distribution-related Total Power Supply Costs (because WEPCo is already recovering its transmission losses in the \$7,850,045), WEPCo would be required to calculate two PSCR factors and then add them together. The first PSCR factor would be for WEPCo's transmission loss costs and would not include a separate 1.06 line loss multiplier because they are already included in the \$7,850,045. The second PSCR factor would be for WEPCo's distribution-related Total Power Supply Costs and would employ a 1.06 line loss factor.⁴⁶ The two factors would then be added together.

4.	Base Power Supply Costs	13.79
5.	Average Costs (Line 3-4)	11.40
6.	Power Supply Cost Recovery Factor Adjusted for Losses (Line 5 * 1.06)	12.0864
7.	Monthly Factors in Mills/kWh	12.09

WHEREFORE, Intervenor Louisiana-Pacific Corporation and Tilden Mining Company, L.C. respectfully request that WEPCo's Total Power Supply Costs be reduced from \$951,219,864 to \$825,935,973 and that its proposed PSCR factor be reduced from \$0.01613/KWh to \$0.01209/KWh.

Respectfully submitted,

FRASER TREBILCOCK DAVIS & DUNLAP, P.C.
Attorneys for Louisiana-Pacific Corporation
and Tilden Mining Company, Inc.

Dated: May 26, 2006

By: **David E. S. Marvin**
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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)
power supply cost recovery reconciliation)
proceeding for the 12-month period ended)
December 31, 2005)

Case No. U-14264-R
PAPERLESS FILING

PROOF OF SERVICE

Angela L. Sumsion hereby certifies that on the 26th day of May, 2006, she served the Initial Brief of Louisiana-Pacific Corporation and Tilden Mining Company, L.C. in the above matter upon the persons identified in the attached service list by e-mail.

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