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June 16, 2006

Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
PO Box 30221
Lansing, MI 48909-7721

Re: Case No. U-14703
ESEC 2006 PSCR Plan Proceeding
Rebuttal Testimony of Leroy M. Baatz

Dear Ms. Kunkle:

Enclosed for paperless filing is Prefiled Rebuttal Testimony of Leroy M. Baatz on behalf of Edison Sault Electric Company and Proof of Service in the above-referenced matter.

If you have any questions, please contact me.

Sincerely,

DYKEMA GOSSETT PLLC

Christine
Mason Soneral

Digitally signed by Christine Mason
Soneral
DN: cn=Christine Mason Soneral,
c=US, o=Dykema Gossett PLLC
Date: 2006.06.16 15:16:31 -04'00'

Christine Mason Soneral

CMMA:jmb

cc: Don Sawruk
Lee Baatz
Parties of Record

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)
EDISON SAULT ELECTRIC COMPANY for)
authority to implement a power supply cost)
recovery plan for the 12 month period ending)
December 31, 2006.)
_____)

Case No. U-14703

PREFILED REBUTTAL TESTIMONY

LEROY M. BAATZ

ON BEHALF

OF

EDISON SAULT ELECTRIC COMPANY

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)
EDISON SAULT ELECTRIC COMPANY for)
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PREFILED REBUTTAL TESTIMONY
OF
LEROY M. BAATZ
ON BEHALF
OF
EDISON SAULT ELECTRIC COMPANY

Q₁ PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A₁ My name is Leroy M. Baatz. My business address is 725 East Portage Avenue,
Sault Ste. Marie, Michigan 49783.

Q₂ ARE YOU THE SAME LEROY M. BAATZ WHO FILED DIRECT TESTIMONY
AND EXHIBITS IN THIS PROCEEDING?

A₂ Yes, I am.

Q₃ WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A₃ James T. Selecky filed direct testimony in this proceeding addressing the level of
costs that Edison Sault Electric Company (Edison Sault) has proposed to include
in its 2006 Power Supply Cost Recovery (PSCR) plan. I will address that

1 testimony and recommend that the adjustments that he proposes to Edison
2 Sault's 2006 PSCR plan not be adopted by the Michigan Public Service
3 Commission (MPSC or Commission).

4
5 **Q₄ PLEASE CLARIFY THE RELATIONSHIP BETWEEN WISCONSIN ELECTRIC**
6 **POWER COMPANY (WEPCO) AND EDISON SAULT IN LIGHT OF MR.**
7 **SELECKY'S TESTIMONY THAT WEPCO'S ENERGY CHARGES TO EDISON**
8 **SAULT ARE UNNECESSARILY HIGH AND UNREASONABLE.**

9 **A₄** Both WEPCO and Edison Sault are owned by Wisconsin Energy Corporation.
10 However, they operate as separate, independent utility companies. The
11 agreements between the companies, namely the 20 MW firm purchase and the
12 Joint Operating Agreement (JOA), are arms-length agreements that have been
13 reviewed by various regulatory agencies (i.e. the Federal Regulatory
14 Commission (FERC), MPSC and the Public Service Commission of Wisconsin
15 (PSCW)). Since each company is regulated independent of the other, there is no
16 incentive for either party to engage in activity that would disadvantage the other.

17
18 **Q₅ PLEASE DESCRIBE THE JOA AND CHANGES THAT HAVE BEEN MADE TO**
19 **THE JOA IN LIGHT OF MR. SELECKY'S CHALLENGE TO THE COSTS**
20 **INCURRED UNDER THE JOA.**

21 **A₅** The JOA was signed on October 16, 2000, and was approved by FERC for use
22 beginning January 1, 2001. The JOA provides for WEPCO and Edison Sault to
23 jointly plan capacity additions and to dispatch their electric generation in order for
24 both utilities to achieve the most economical power supply costs. JOA

Amendment No. 1 was accepted by FERC and took effect on November 1, 2003, to allow WEPCO and Edison Sault to jointly coordinate the purchase of renewable energy. JOA Amendment 2 was accepted by FERC and took effect on April 1, 2005, to modify energy pricing in anticipation of WEPCO and Edison Sault participating in the MISO energy markets. There were no intervenors in the FERC filings.

Q₆ IS IT TRUE THAT EDISON SAULT “VOLUNTARILY TERMINATED AMENDMENT 1 TO THE JOA AND REPLACED IT WITH AMENDMENT 2”, AS MR. SELECKY CLAIMS?

A₆ Mr. Selecky’s assertion that Amendment 1 to the JOA was “terminated” is incorrect. Per the terms of the JOA, termination requires twelve months written notice from one party to the other. In this case neither WEPCO nor Edison Sault desired to terminate the JOA. Instead, it is more accurate to state that by mutual agreement and necessity, Amendment 1 to the JOA was superseded by Amendment 2, which includes the modifications described above.

Q₇ DID JOA AMENDMENT 2 [INCORPORATING THE START-UP OF THE MIDWEST INDEPENDENT TRANSMISSION SYSTEM OPERATOR, INC. (MISO) ENERGY MARKETS] SUBSTANTIALLY CHANGE THE INTENT OF THE JOA?

A₇ No. Prior to Amendment 2, energy pricing under the JOA was based on “System Incremental Costs”, which used the cost of the most expensive resources supplying energy in a given hour as the cost of JOA energy. The generators that

were operating during each hour were based on WEPCO's generator dispatch decisions. Once the MISO market started, decisions regarding generator dispatch shifted from WEPCO to MISO, and WEPCO was required to purchase all of its load from the MISO market. These changes made the "System Incremental Cost" an inaccurate measure of WEPCO's cost to provide JOA energy to Edison Sault and therefore a change to the JOA was required. Since the start of the MISO market, the Locational Marginal Price (LMP) at the Edison Sault load zone commercial pricing node represents the cost to provide JOA energy to Edison Sault. LMP is calculated by MISO on an hourly basis, and is defined as the market clearing price for energy at a given Commercial Pricing node which is equivalent to the marginal cost of serving demand at the Commercial Pricing node. LMP is what WEPCo pays to provide JOA energy, and it is clearly the direct replacement for System Incremental Cost.

Q₈ HAVE PURCHASES UNDER THE JOA BEEN INCLUDED IN PREVIOUS EDISON SAULT PSCR PLANS?

A₈ Yes. JOA purchases have been included in Edison Sault's 2002, 2003, 2004 and 2005 PSCR plans and the 2002, 2003, and 2004 PSCR reconciliations (with the 2005 PSCR reconciliation pending). The MPSC has not disallowed any of the costs incurred under the JOA, and has previously approved similar charges in at least 4 cases: Case Nos. U-13114, U-13586, U-13914, and U-14271.

1 **Q₉ DOES THE JOA CONTAIN PROVISIONS FOR BOTH CAPACITY AND**
2 **ENERGY PAYMENTS?**

3 A₉ Yes. There are separate schedules for both capacity and energy payments.
4 Schedule D of the JOA details the calculation of the Pricing of Pooled Capacity
5 Resources, and Schedule E explains the calculation for Energy Pricing. Both
6 Schedules D and E are attached as Exhibits A-5 and A-6. Pooled Capacity
7 Resources are those resources which WEPCo contracted for following the
8 effective date of the JOA, in order to meet the capacity needs of both WEPCo
9 and Edison Sault. The price of Pooled Capacity is the weighted average
10 capacity price of those contracts. The amount of capacity Edison Sault
11 purchases is based on its estimated peak load during the peak load month of
12 WEPCo for the year.

13 It is important to note that while specific capacity resources are utilized to
14 calculate the cost of pooled capacity, Edison Sault does not have direct rights to
15 the energy produced by these resources. It is not unusual in the energy industry
16 for a contract for capacity and energy to identify a specific resource for capacity
17 but to have the energy pricing provisions be unrelated to the capacity resource.
18 As an example, I understand that the energy pricing in the WEPCo contract for
19 the Ameren System purchase, which is a pooled capacity resource, is tied to a
20 published energy price index rather than any generating unit owned by Ameren.
21

Q₁₀ WOULD YOU PLEASE ADDRESS MR. SELECKY'S STATEMENT THAT THE JOA PURCHASES REPRESENT ONLY 24% OF EDISON SAULT'S POWER SUPPLY IN MWH, BUT COMPRISES 49% OF THE NET POWER SUPPLY COST?

A₁₀ As I discussed in my direct testimony, Edison Sault minimizes its PSCR costs by first maximizing its hydro generation, and then purchasing power under two 20 MW contracts (one with Consumers Energy Company (Consumers) and one with WEPCO). The JOA power is purchased to meet Edison Sault's power supply requirements that remain after the hydro generation and the two 20 MW contracts are utilized. In essence, the JOA power is taken to meet Edison Sault's peak power needs while the other sources are used to serve Edison Sault's base load. Power purchased at peak times is more costly than base load power as MISO dispatches lower generating units first, and then turns to higher cost generating units to serve the remaining load requirements. Also, the base load generation includes Edison Sault's own hydro generation and hydro generation purchased from the US Corps of Engineers. That hydro generation has low costs which lowers the percentage of costs of the base load generation.

Q₁₁ MR. SELECKY CLAIMS THAT THE COST OF JOA CAPACITY IS NOT REASONABLE. DO YOU AGREE?

A₁₁ No. The capacity resources under contract to WEPCo are made up of both short-term and long-term purchase contracts. This approach provides long-term

capacity price stability as well as the flexibility to participate in short-term capacity markets as needed to fulfill capacity requirements.

Q₁₂ PLEASE DISCUSS MR. SELECKY'S PROPOSAL TO REDUCE POOLED CAPACITY COSTS BY 50%.

A₁₂ Edison Sault's 2006 PSCR plan included capacity payments for 35 MW of capacity purchased under the JOA at an annual cost of \$2,520,000, with \$280,800 of that cost allocated to Cloverland Electric Cooperative (Cloverland). Mr. Selecky proposes to arbitrarily exclude 50% of those capacity costs, claiming that Edison Sault does not derive any benefit from any energy that is produced by the pooled capacity. In so doing, Mr. Selecky is mistakenly combining the JOA provisions for capacity and energy, and proposes to not allow Edison Sault to recover actual costs that it incurs under the JOA. Pooled capacity costs increased by just 2.5% [4% with Dynegy] between 2005 and 2006. However, JOA energy prices have increased significantly due to increases in fuel costs. Mr. Selecky is suggesting that the MPSC penalize Edison Sault for increases in fuel costs by reducing the amount it can recover for pooled capacity costs.

Q₁₃ CAN YOU DESCRIBE THE CONCEPT OF CAPACITY AS IT RELATES TO JOA CAPACITY PURCHASES?

A₁₃ Capacity represents a physical asset that is capable of generating electrical power. A capacity purchase requires the seller of the capacity to transfer capacity rights to the buyer of the capacity. For example, if Company A

purchases 50 MW of capacity from Company B, which has 50 MW of excess capacity. Once the capacity is sold, Company B cannot count the 50 MW for its own capacity, since Company A owns the rights to it.

A capacity purchase does not provide the buyer with rights to the energy from the physical asset. If the buyer wants to also own the rights to energy from the physical asset, separate provisions for energy purchases need to be included in the purchase agreement. Such provisions could include full and exclusive dispatch rights to a specific generator with the buyer providing the fuel, as is the case for WEPCo's Zion and Elgin power purchase agreements. Another example of energy purchase under a capacity agreement is a day-ahead call option on energy, which is utilized in WEPCO's Ameren System purchase.

Electric utilities maintain capacity reserve margins based on guidelines established by regional reliability councils. These guidelines ensure that sufficient capacity reserve margins exist within the region. This may facilitate capacity transactions within the region, such that companies with excess capacity may sell the excess to other companies that are capacity-deficient. While ownership of the physical asset does not change, the amount of physical capacity assets that exist in the region is adequate to provide the required capacity reserve levels.

Q₁₄ DOES EDISON SAULT MAINTAIN A 15% CAPACITY PLANNING RESERVE MARGIN? IF SO, IS THIS APPROPRIATE GIVEN THE EXISTENCE OF THE MISO MARKET?

1 A₁₄ Prior to 2006, the Mid-America Interconnected Network (MAIN), which was the
2 regional reliability council for WEPCo, recommended a 15% planning reserve
3 margin. On January 1, 2006, Reliability First Corporation (RFC) replaced MAIN
4 as the reliability council for WEPCo and Edison Sault. RFC is in the process of
5 establishing its capacity reserve margin requirement, and requires its members
6 to continue to follow the planning reserve guidelines of their predecessor Council
7 for 2006 and 2007. This means the recommended planning reserve margin from
8 MAIN in 2005 will continue to apply to Edison Sault during 2006 and 2007.

9 Regarding the need for a 15% reserve margin given the existence of the
10 MISO market, it is possible that planning reserves could be reduced sometime in
11 the future. RFC will take the impact of the MISO market into account as it
12 finalizes the planning reserve requirements to take effect in 2008.

13
14 **Q₁₅ DOES THE JOA CAPACITY PROVIDE ANY BENEFITS TO EDISON SAULT**
15 **AND ITS CUSTOMERS?**

16 A₁₅ Yes. Maintaining adequate capacity ensures that there are sufficient generating
17 resources available to meet expected customer demands for power within an
18 acceptable level of risk that there will not be a shortfall. As I described earlier,
19 Edison Sault is part of the RFC reliability council, and as a member of this group
20 Edison Sault is responsible for maintaining adequate capacity reserves. Since
21 RFC members all maintain the required amount of capacity reserves, the entire
22 group benefits from a more secure energy supply within the region. If one or

1 more members decide to carry less than the required reserves, the entire group
2 could suffer.

3 I have attached to my testimony as Exhibit A-7 a Staff discovery request
4 that I responded to concerning the consequences of not having the JOA
5 capacity. My response would be the same if the discovery request asked about
6 the consequences of arbitrarily removing 50% of the JOA capacity. Without such
7 capacity, Edison Sault's customers would be subject to substantial risks of
8 increased costs and service interruptions.

9 Mr. Selecky's proposal to eliminate \$1.120 million in PSCR capacity
10 related costs would represent an approximate \$40 annual reduction per customer
11 for Edison Sault's approximate 23,000 customers. The consequences of being
12 exposed to service interruptions would be a high price to pay for those
13 customers.

14
15 **Q₁₆ PLEASE ADDRESS MR. SELECKY'S COMMENTS REGARDING ENERGY**
16 **FROM THE POOLED CAPACITY.**

17 **A₁₆** Mr. Selecky is incorrect when he states that Edison Sault pays a pooled capacity
18 charge but does not receive any energy-related benefits. The JOA has specific
19 provisions for capacity and energy, but the energy provisions of the JOA do not
20 correspond with generation from the capacity resources. It is not uncommon for
21 contracts with capacity and energy to utilize a physical resource, or a group of
22 resources, for capacity purposes, and to have the pricing for energy be unrelated
23 to the cost of generation from that resource. It is also important to note that the

JOA has a cost cap of \$100/MWH for energy, which protects Edison Sault against extreme energy prices in the event of even higher fuel cost increases.

Energy can be taken by WEPCO from the pooled capacity, but WEPCO is not required to take such energy. This is important because much of the pooled capacity is natural gas fired peaking generators, which tend to have an energy strike price that is higher than the market price.

Q₁₇ MR. SELECKY CLAIMS THAT SPECIFIC POOLED CAPACITY RESOURCES WERE NOT APPROVED BY FERC. IS THIS TRUE?

A₁₇ Schedule C currently lists the single pooled capacity resource that existed upon execution of the original JOA. While it has not been updated to include the most recent pooled capacity resources, Edison Sault is provided with a list of the pooled capacity resources on an annual basis when the pooled capacity price calculation is performed [and has provided this information upon request to the MPSC]. FERC has not approved the specific pooled capacity charges in any case; instead, FERC has accepted the methodology in which pooled capacity resource costs are calculated. It is disingenuous to claim that the pooled capacity costs should not be recovered by Edison Sault because they were not approved by FERC, as Mr. Selecky does in his testimony. In addition, the MPSC has previously approved capacity charges in cases U-13114, U-13586, U-13914, and U-14271. Edison Sault also is seeking approval for the capacity charges in this case, indicating that an annual approval by FERC of pooled capacity cost calculations is not required.

Q₁₈ TO YOUR KNOWLEDGE, HAS THE COMMISSION REQUESTED UTILITIES TO ASSESS THEIR GENERATING CAPACITY?

A₁₈ Yes. The MPSC has issued orders directing electric utilities in Michigan, including Edison Sault, to submit assessments of their ability to meet the capacity needs of its customers. Edison Sault and Cloverland have jointly filed the capacity assessments for the past three years. The 2006 capacity assessment submitted to the Commission in Case No. U-14728, of which I was the primary author, is attached as Exhibit A-8. The capacity assessments state that Edison Sault's projected capacity includes a 15% reserve margin. If Edison Sault was to reduce its JOA capacity purchases by 17.5 MW (50% of the 35 MW being purchased in 2006), it would have inadequate reserve margins, and as a result, would be less likely to have sufficient capacity to meet its peak load.

Q₁₉ PLEASE DISCUSS MR. SELECKY'S PROPOSAL CONCERNING JOA ENERGY PAYMENTS.

A₁₉ Mr. Selecky recommends that the MPSC should arbitrarily adjust Edison Sault's PSCR Plan costs to reflect 25% of the JOA energy being purchased at WEPCO's average cost. As I stated earlier, JOA energy costs have risen due to higher fuel costs, so the proposal would penalize Edison Sault for increases in fuel costs that are beyond its control. Mr. Selecky's proposal to purchase power at WEPCO's average cost is inconsistent with the FERC approved JOA since the JOA calls for the use of marginal costs, which I described earlier. Neither Edison Sault nor WEPCo ever interpreted the "at cost" provisions of the JOA to mean

“average cost”. Mr. Selecky’s proposal that Edison Sault purchase the energy at WEPCo’s average cost would require WEPCo to charge Edison Sault the average cost of generation for all generators on-line during each hour. This pricing methodology would effectively allocate a portion of WEPCO’s energy from lower cost generating units to Edison Sault. If this were to happen, WEPCO would likewise want to receive the benefits of Edison Sault’s low cost hydro generation. The JOA contains a provision for the companies to explore the appropriate timing for a transition to a system-wide pool. Edison Sault has not supported a full pooling of generating resources as it wishes to retain the benefit of its own lower cost hydro generation for its Company and customers.

Q₂₀ DID WEPCO AND EDISON SAULT DISCUSS THE IMPACT OF THE MISO ENERGY MARKETS PRIOR TO THE APRIL 1, 2005 COMMENCEMENT DATE?

A₂₀ Yes. The commencement of the MISO energy markets were discussed at the September 17, 2003 meeting of the JOA Operating Committee. At that time, it was anticipated that the MISO energy markets (then referred to the Midwest Market Initiative) would become operational in the spring of 2004. Edison Sault and Cloverland were advised at that time that the MISO energy markets “affects anyone who moves power across the system – really anyone who buys and sells electric power.” At the September 28, 2004 meeting of the JOA Operating Committee Edison Sault and Cloverland were advised that the commencement of the MISO energy markets had been extended to March 1, 2005. This turned

1 out to be a month before the MISO energy market actual start date. WEPCo and
2 Edison Sault had multiple meetings between the 2004 JOA Operating Committee
3 meeting and the start of the MISO energy market.

4 **Q₂₁ ARE THE DATES OF THOSE DISCUSSIONS IMPORTANT TO THE ISSUES**
5 **IN THIS PROCEEDING?**

6
7 **A₂₁** Yes. The JOA contains a Term of Agreement section that provides that either
8 party, WEPCO or Edison Sault, may terminate the agreement upon twelve month
9 written notice to the other party. Given the advance notices of the developing
10 MISO energy markets, either party, WEPCO or Edison Sault, had sufficient
11 opportunity to cancel the JOA if they thought it was in their best interest to do so.
12 Neither party to date has given notice to cancel the JOA.

13 Mr. Selecky apparently believes that Edison Sault should not have agreed
14 to the JOA Amendment 2, and should have forced WEPCO to continue to
15 provide service under JOA Amendment 1 until proper notification of cancellation
16 was given. Edison Sault believes that the JOA continues to provide power at
17 competitive prices, and is not aware of better alternatives in the market place to
18 meet its energy and capacity needs. Edison Sault does not intend to cancel the
19 JOA under its present terms and current regulatory cost recovery procedures.

20 **Q₂₂ DID THE START OF THE MISO MARKET CAUSE EDISON SAULT'S JOA-**
21 **RELATED COSTS TO INCREASE.**

22
23 **A₂₂** Along with the benefits the MISO market, there are some costs associated with
24 participation in the MISO energy markets. However, these costs are very minor

when compared to the impact of higher fuel costs, especially natural gas, which began to push energy prices higher around the same time as the start of the MISO energy markets. Fuel cost increases have been the primary driver for higher JOA energy costs since early 2005.

Q₂₃ WOULD MR. SELECKY'S PROPOSAL THAT EDISON SAULT BE ABLE TO PURCHASE WEPCO'S EXCESS ELECTRICITY AT WEPCO'S COST TO GENERATE BE BENEFICIAL TO WEPCO OR TO EDISON SAULT?

A₂₃ No. First of all, Edison Sault has no rights under the JOA to purchase excess energy from WEPCo, from either the pooled capacity resources or other resources. Mr. Selecky incorrectly references section 6.02 of the JOA as part of his proposal. Section 6.02 deals with capacity resources, and as I noted previously the JOA has always treated capacity and energy separately.

Second, if WEPCo were required to offer its excess energy to Edison Sault, WEPCO would be forced to sell energy to Edison Sault at rates lower than what it would pay to provide the JOA energy in the MISO market. Under such a requirement, Edison Sault would anticipate that WEPCO would terminate the JOA Agreement, resulting in Edison Sault having to make alternative power supply arrangements. Current electric markets indicate that alternative power supply arrangements would be more costly than what Edison Sault is now incurring, with an added detrimental feature of subjecting itself and its customers to the vagaries of not having a firm delivery contract in place.

Q₂₄ ARE WEPCO'S AND EDISON SAULT'S RESPONSIBILITIES UNDER THE JOA DIFFERENT THAN THEY ARE WITH RESPECT TO THE 20 MW CONTRACT WITH WEPCO?

A₂₄ Yes, they are different types of contracts. The intent of the JOA is to minimize the cost of new power supplies for both parties. The 20 MW WEPCO contract was a negotiated contract for power and energy and was signed in 1996 when Edison Sault and WEPCO were not affiliated, and its terms are very favorable to Edison Sault when compared to present market conditions. The JOA capacity and energy prices, on the other hand, are updated on an annual basis. Comparing the two contracts in terms of capacity and energy prices would provide no meaningful basis for claiming that the JOA prices are excessive.

Inquiries by Edison Sault to extend the terms and to purchase more power at the rates contained in the 20 MW contract have not been successful as WEPCO also realizes that the present rates are currently below market prices. Edison Sault and WEPCO are considering various alternatives for replacing the power when that contract expires at its December 31, 2007 scheduled completion date.

Q₂₅ DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A₂₅ Yes, it does.

The price of Pooled Capacity Resources for the coming Year shall be determined by the Agent by November 15 of the current Year. The price to Edison Sault shall be the Agent's annual cost for the Pooled Capacity Resources multiplied by the ratio of Edison Sault's Capacity Requirement for the coming Year to the sum of Wisconsin Electric's and Edison Sault's Capacity Requirements for the coming Year. Included in the price shall be any applicable taxes and transmission costs.

Examples:

1. Annual Capacity Requirement for Edison Sault = 20 MW
Annual Capacity Requirement for Wisconsin Electric = 180 MW
Annual cost of Pooled Capacity Resources = \$18 M (including taxes & transmission)
Annual price to Edison Sault = $\frac{\$18 \text{ M} \times 20 \text{ MW}}{(20 \text{ MW} + 180 \text{ MW})}$
= \$1.8 M
2. As above, but during the year Wisconsin Electric's Capacity Requirements increase to 200 MW, and annual cost of Pooled Capacity Resources increases to \$22 M.
Annual price to Edison Sault = $\frac{\$22 \text{ M} \times 20 \text{ MW}}{(20 \text{ MW} + 200 \text{ MW})}$
= \$2.0 M
3. As above, but during the year Wisconsin Electric's Capacity Requirements decrease to 160 MW, and annual cost of Pooled Capacity Resources decreases to \$14 M.
Annual price to Edison Sault = $\frac{\$14 \text{ M} \times 20 \text{ MW}}{(20 \text{ MW} + 160 \text{ MW})}$
= \$1.6 M

Wisconsin Electric Power Company
First Revised Rate Schedule FERC No. 96
Superseding Original Rate Schedule FERC No. 96

Substitute First Revised Sheet No. 24
Replacing First Revised Sheet No. 24

SCHEDULE E

Energy Pricing

Upon the start-up of the Midwest ISO energy markets, scheduled for April 1, 2005, the price of Energy delivered to Edison Sault as required to meet Edison Sault load in excess of Energy available and scheduled from Edison Sault Embedded Capacity Resources shall be based on Locational Marginal Prices ("LMPs") in the Midwest ISO energy markets, plus applicable taxes and Midwest ISO charges. The Midwest ISO LMPs are calculated both day-ahead and real-time on an hourly basis. The load-weighted average of the Energy price, for a Month, shall not exceed the greater of \$100/MWh, or a mutually acceptable index. Such an index must be selected and accepted by both Parties for the Year by November 15 of the previous Year.

The total amount of Energy delivered shall be determined on an hourly basis as Edison Sault's total load less the net generation of Edison Sault's Embedded Capacity Resources, shown in Schedule B, operating that Hour. The amount of Energy shall be calculated for both (a) the day-ahead Midwest ISO market, and (b) the real-time Midwest ISO market, as follows:

- (a) In the day-ahead market, the amount of Energy will be equal to the amount of Edison Sault load cleared in the day-ahead market minus the amount of energy from the Edison Sault Embedded Capacity Resources cleared in the day-ahead market. The amount of day-ahead Energy will be multiplied by the day-ahead Midwest ISO LMP at the Edison Sault load zone to calculate the day-ahead Energy cost for each hour.
- (b) In the real-time market, the actual Edison Sault load minus the amount of actual Energy from the Edison Sault Embedded Capacity Resources equals the real-time Energy subtotal. This subtotal less the day-ahead Energy amount will determine the amount of real-time Energy. The amount of real-time Energy will be multiplied by the real-time Midwest ISO LMP at the Edison Sault load zone to calculate the real-time Energy cost for each hour.

The sum of the amounts in (a) and (b) represents the total Energy amount for the hour. The sum of the costs in (a) and (b) above, plus all applicable Midwest ISO market charges, represents the total Energy cost for the hour.

During periods when the Edison Sault Embedded Capacity Resources provide more energy in the real-time than those resources cleared in the day-ahead market such excess Energy shall be sold directly to Midwest ISO and shall be priced at the real-time LMP for the Embedded Capacity Resource. This is included in the calculation in (b) above and is based on the settlement rules of the Midwest ISO real-time energy market.

Issued by: James R. Keller, Director Federal Regulatory and Policy Effective date: April 1, 2005
Wisconsin Electric Power Company

Issued on: April 29, 2005

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

Discovery Request 15

Provide all workpapers supporting the testimony of Leroy M. Baatz.

Response

Workpapers are attached as discovery request 15, documents 1 through 6.

Respondent

Lee Baatz

Discovery Request 15, Document 2
Capacity workpapers

Stand-Alone Capacity Requirements for Edison Sault in 2006

File: ESECapacity, revised 8/10/2005

ESE Native Load MW Coincident Ratio (1998-2004) Coincident Peak Load Required Reserves @ 15% RM	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
	146	139	138	130	126	126	133	134	129	135	136	146
	0.92	0.96	0.95	0.88	0.87	0.90	0.92	0.91	0.91	0.88	0.97	0.95
	133	133	131	111	110	113	122	122	117	119	132	139
	20	20	20	17	16	17	18	18	18	18	20	21
RESOURCES												
Firm Purchases (w/Reserves)	WE	20	20	20	20	20	20	20	20	20	20	20
Generation	Consumers Energy	20	20	20	20	20	20	20	20	20	20	20
	ESE Hydro	27	27	27	27	27	27	27	27	27	27	27
	US Hydro	17	17	17	17	17	17	17	17	17	17	17
	Diesels	18	16	16	16	16	16	16	16	16	16	16
Total Capacity Provided		100	100	100	100	100	100	100	100	100	100	100
Total Reserves Provided		6	6	6	6	6	6	6	6	6	6	6
Capacity Shortfall		23	33	31	11	10	13	22	17	19	32	38
Reserves Shortfall @ 15% RM		14	14	14	11	10	11	12	12	12	14	15
Total Required Capacity		47	47	45	21	20	24	34	29	31	46	54

Stand-Alone Capacity Requirements for Cloverland in 2006

Native Load MW Coincident Ratio (1998-2004) Coincident Peak Load Required Reserves @ 15% RM	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
	42.5	38.7	37.2	35.1	34.3	33.6	37.9	36.4	34.0	36.4	36.3	42.9
	0.92	0.96	0.95	0.85	0.87	0.90	0.92	0.91	0.91	0.88	0.97	0.95
	39.1	37.2	35.3	29.8	29.8	30.2	34.9	33.1	30.9	32.0	35.2	40.8
	5.9	5.6	5.3	4.5	4.5	4.5	5.2	5.0	4.5	4.8	5.3	6.1
RESOURCES												
Firm Purchases (w/Reserves)	WE	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Generation	Consumers Energy	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
	ESE Hydro	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6
	US Hydro	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
	Diesels	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Total Capacity Provided		34.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7	34.7
Total Reserves Provided		1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Capacity Shortfall		4.4	2.4	0.8	-4.8	-4.9	-4.5	-1.5	-3.8	-2.7	0.6	6.0
Reserves Shortfall @ 15% RM		4.4	4.1	3.8	3.0	3.0	3.0	3.5	3.1	3.3	3.8	4.6
Total Required Capacity		8.7	6.5	4.4	-1.9	-1.9	-1.5	1.9	-0.7	0.6	4.3	10.6

Stand-Alone Capacity Requirements for Edison Sault 2006 - 2012

File: ESECapacity.

ESE Native Load MW
Coincident Ratio (1998-2004)
Coincident Peak Load
Required Reserves @ 15% RM

	Jul-06	Jul-07	Jul-08	Jul-09	Jul-10	Jul-11	Jul-12
Native Load MW	133	137	138	139	140	141	142
Coincident Ratio (1998-2004)	0.92	0.92	0.92	0.92	0.92	0.92	0.92
Coincident Peak Load	122	126	127	128	129	130	131
Required Reserves @ 15% RM	18	19	19	19	19	19	20

RESOURCES

Firm Purchases (w/Reserves) WE
Consumers Energy
Generation
ESE Hydro
US Hydro
Diseels

Total Capacity Provided
Total Reserves Provided

Capacity Shortfall
Reserves Shortfall @15% RM

Total Required Capacity

Line 67

Stand-Alone Capacity Requirements for Cloverland 2006 - 2012

Native Load MW
Coincident Ratio (1998-2004)
Coincident Peak Load
Required Reserves @ 15% RM

	Jul-06	Jul-07	Jul-08	Jul-09	Jul-10	Jul-11	Jul-12
Native Load MW	37.9	38.4	39.0	39.6	40.2	40.8	41.4
Coincident Ratio (1998-2004)	0.92	0.92	0.92	0.92	0.92	0.92	0.92
Coincident Peak Load	34.9	35.3	35.9	36.4	37.0	37.5	38.1
Required Reserves @ 15% RM	5.2	5.3	5.4	5.5	5.5	5.6	5.7

RESOURCES

Firm Purchases (w/Reserves) WE
Consumers Energy
Generation
ESE Hydro
US Hydro
Diseels

Total Capacity Provided
Total Reserves Provided

Capacity Shortfall
Reserves Shortfall @15% RM

Total Required Capacity

Line 106

2006	2007	2008	2009	2010	2011	2012
Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
at 0.75%	at 0.75%	at 0.75%	at 0.75%	at 0.75%	at 0.75%	at 0.75%
144,945	146,032	149,827	150,951	152,083	153,223	154,373
138,797	139,898	143,586	144,663	145,748	146,841	147,943
137,758	138,791	142,532	143,601	144,678	145,763	146,856
129,590	133,262	134,261	135,268	136,283	137,305	138,335
126,397	130,044	131,020	132,002	132,992	133,990	134,995
125,593	129,235	130,204	131,180	132,164	133,155	134,154
133,442	137,143	138,171	139,208	140,252	141,304	142,363
133,622	137,324	138,354	139,392	140,437	141,480	142,531
129,497	133,158	134,157	135,163	136,177	137,198	138,227
134,836	138,547	139,586	140,633	141,688	142,750	143,821
136,360	140,072	141,123	142,181	143,248	144,322	145,404
146,087	149,863	151,007	152,139	153,280	154,430	155,586

2700 KW new customer expansion in second quarter 2007.

2006	2007	2008	2009	2010	2011	2012
Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
at 1.5%	at 1.5%	at 1.5%	at 1.5%	at 1.5%	at 1.5%	at 1.5%
42,463	43,120	43,767	44,423	45,090	45,766	46,453
38,677	39,257	39,846	40,443	41,050	41,666	42,291
37,229	37,788	38,354	38,930	39,514	40,106	40,708
35,067	35,593	36,127	36,669	37,219	37,777	38,344
34,321	34,836	35,359	35,889	36,427	36,974	37,528
33,634	34,139	34,651	35,170	35,698	36,233	36,777
37,856	38,424	39,001	39,586	40,179	40,782	41,394
36,431	36,978	37,533	38,096	38,667	39,247	39,836
34,033	34,543	35,062	35,588	36,121	36,663	37,213
36,413	36,959	37,514	38,076	38,648	39,227	39,816
36,258	36,802	37,354	37,914	38,483	39,060	39,648
42,949	43,593	44,247	44,911	45,584	46,268	46,962

Latest
actual
with 1.5%

	2004		2003		2002		2001		2000		1999		1998		Non-Coincident/Non-Coincident		
	Coincident Peak KW	Coincident Peak KW	Coincident Peak KW	Coincident Peak KW	Coincident Peak KW	Coincident Peak KW	Coincident Peak KW	Coincident Peak KW	Coincident Peak KW	Coincident Peak KW	Coincident Peak KW	Coincident Peak KW	Coincident Peak KW	Coincident Peak KW	Non-Coincident Peak KW	Non-Coincident Peak KW	Non-Coincident Peak KW
January	136,923	125,717	119,853	125,839	124,565	126,310	114,206	146,787	139,939	126,522							
February	131,215	130,704	123,863	121,911	122,947	112,033	116,557	133,657	137,442	124,567							
March	122,554	134,505	122,541	113,962	112,057	117,611	117,392	122,554	139,179	128,251							
April	110,634	115,447	97,184	102,434	92,952	92,255	97,329	120,502	121,594	121,726							
May	104,635	107,265	108,193	97,021	98,407	104,966	98,851	122,650	117,088	122,322							
June	98,184	118,511	111,008	105,344	105,795	97,826	106,259	120,117	120,203	118,397							
July	110,586	126,021	109,078	118,396	107,959	117,193	112,867	125,474	126,288	129,651							
August	98,350	119,583	118,043	112,037	111,134	112,615	111,722	124,253	127,435	123,873							
September	119,879	99,372	118,231	108,564	105,236	113,868	102,327	123,179	120,026	121,209							
October	111,193	120,073	113,158	107,451	104,305	110,997	107,389	126,277	128,204	126,574							
November	125,811	123,364	128,112	117,286	120,018	122,605	118,303	127,458	129,541	129,665							
December	136,120	133,895	129,871	121,827	118,483	134,650	128,643	147,057	135,400	133,846							
Total	1,406,084	1,454,457	1,399,135	1,352,072	1,323,854	1,362,928	1,331,843	1,539,965	1,542,339	1,506,603							
Average	117,174	121,205	116,595	112,673	110,321	113,577	110,987	128,330	128,528	125,550							

File: WEPConLR.xls, sheet Coin-Non-Coin
6/24/2005

EDISON SAULT ELECTRIC COMPANY
Summary of Peaks to WEPCo Peaks
Combined Edison Sault/Cloverland System

Summary of Peaks to WEPCo Peaks
Combined Edison Sault/Cloverland System

2001 Non-Coincident Peak KW	2000 Non-Coincident Peak KW	1999 Non-Coincident Peak KW	1998 Non-Coincident Peak KW	2004 Diversity Ratio	2003 Diversity Ratio	2002 Diversity Ratio	2001 Diversity Ratio	2000 Diversity Ratio
128,330	137,081	138,115	129,802	0.93	0.90	0.95	0.98	0.91
124,124	130,083	125,393	120,467	0.98	0.95	0.99	0.98	0.95
121,330	133,695	119,815	120,111	1.00	0.97	0.96	0.94	0.84
122,853	120,091	112,460	115,780	0.92	0.95	0.80	0.83	0.77
114,762	114,981	121,016	112,786	0.85	0.92	0.88	0.85	0.86
115,584	113,748	115,205	119,426	0.82	0.99	0.94	0.91	0.93
127,418	115,970	123,664	120,725	0.88	1.00	0.84	0.93	0.93
131,485	118,597	117,810	120,059	0.79	0.94	0.95	0.85	0.94
119,253	122,617	117,584	115,939	0.97	0.83	0.98	0.91	0.86
127,278	122,993	127,514	120,958	0.88	0.94	0.89	0.84	0.85
125,001	126,751	126,151	119,666	0.99	0.95	0.99	0.94	0.95
129,108	138,597	137,415	134,378	0.93	0.99	0.97	0.94	0.85
1,486,526	1,495,214	1,482,142	1,450,097	0.91	0.94	0.93	0.91	0.89
123,877	124,601	123,512	120,841	0.91	0.94	0.93	0.91	0.89

For 2004 and 2005 budgets, use 1998-2001 average coincident

aks to WEPCo Peaks
in Sault/Cloverland System

1999 Diversity Ratio	1998 Diversity Ratio	1998-2004 7 Year Average Diversity Ratio	1998-2003 6 Year Average Diversity Ratio	1998-2002 5 Year Average Diversity Ratio	1998-2001 4 Year Average Diversity Ratio	1998-2000 3 Year Average Diversity Ratio
0.91	0.88	0.92	0.92	0.93	0.92	0.90
0.89	0.97	0.96	0.96	0.96	0.95	0.94
0.98	0.98	0.95	0.94	0.94	0.93	0.93
0.82	0.84	0.85	0.84	0.81	0.82	0.81
0.87	0.88	0.87	0.87	0.87	0.86	0.87
0.85	0.89	0.90	0.92	0.90	0.90	0.89
0.95	0.93	0.92	0.93	0.92	0.94	0.94
0.96	0.93	0.91	0.93	0.93	0.92	0.94
0.97	0.88	0.91	0.90	0.92	0.90	0.90
0.87	0.89	0.88	0.88	0.87	0.86	0.87
0.97	0.99	0.97	0.96	0.97	0.96	0.97
0.98	0.96	0.95	0.95	0.94	0.93	0.93
0.92	0.92	0.92	0.92	0.91	0.91	0.91
0.92	0.92	0.92	0.92	0.91	0.91	0.91

dent ratios as July ratios in 2002 and 2003 appear unusual.

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EDISON SAULT
ELECTRIC COMPANY

A Wisconsin Energy Company

725 East Portage Avenue / Sault Ste. Marie, MI 49783
906-632-2221 800-562-4960

April 10, 2006

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

Dear Ms. Kunkle:

Re: MPSC Case No. U-14728
Assessment of ability to meet electric requirements

On January 10, 2006, the Michigan Public Service Commission issued an Order in its investigation into the electric supply reliability plans of Michigan's electric utilities for the year 2006. Electric utilities were directed by the Commission to file by April 14, 2006, an assessment of their ability to meet customers' expected electric requirements in 2006.

Edison Sault Electric Company and Cloverland Electric Cooperative have a contract for electric service whereby the electric requirements of both utilities are jointly planned and wholesale power is purchased in a coordinated manner. Enclosed please find a joint assessment and four copies of Edison Sault's and Cloverland's ability to meet their customers expected electric requirements in 2006.

Sincerely;

Donald Sawruk
President
Edison Sault Electric Company

Donald Wozniak
General Manager
Cloverland Electric Cooperative

Enc.

File: MPSCU-14728Assessment.doc

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the investigation, on the	)	
Commission's own motion, into the electric	)	
supply reliability plans of Michigan's	)	Case No. U-14728
electric utilities for the year 2006	)	

**Joint Assessment of Edison Sault Electric Company
and Cloverland Electric Cooperative**

Introduction

Edison Sault Electric Company (Edison Sault) is an investor-owned electric company headquartered in Sault Ste. Marie, Michigan, and serves approximately 23,000 customers in the eastern portion of Michigan's Upper Peninsula. Cloverland Electric Cooperative (Cloverland) is a cooperative electric utility headquartered in Dafer, Michigan, and serves approximately 16,000 customers in the eastern portion of Michigan's Upper Peninsula. Edison Sault and Cloverland have a contract for electric service whereby the electric requirements of both utilities are jointly planned and wholesale power is purchased in a coordinated manner. Edison Sault and Cloverland hereby jointly submit this assessment of their ability to meet customers' expected electric requirements in 2006.

Under the contract for electric service, Edison Sault generates electricity from its hydro plant and purchases power for both itself and Cloverland. The electric requirements of Cloverland are included in Edison Sault's generation and power supply planning. All references to Edison Sault's generation and power supply planning in this assessment will include the wholesale sales to Cloverland.

Power Supply Requirements for 2006

Edison Sault serves the power requirements of its customers from five major sources. The major sources and their approximate capacity for calendar year 2006 are:

Edison Sault's hydro plant in Sault Ste. Marie (27 MW)

The U. S. Corp of Engineers' hydro plant (17 MW)

A firm power contract with Consumers Energy Company (Consumers Energy) (20 MW)

A firm power contract with Wisconsin Electric Power Company (WEPCo) (20 MW)

A Joint Operating Agreement (JOA) with WEPCo (35 MW forecasted for 2006).

In addition, Edison Sault also has its own diesel generating units. Edison Sault also can purchase generation from the diesel generating units owned by Cloverland. These diesel units are operated periodically for testing, and are available for capacity peaking purposes. The diesel units can also be operated to support voltage or maintenance activities.

Power Supply Requirements – Long Term Commitments

Edison Sault owns its hydroelectric plant in Sault Ste. Marie, and the water for the plant is leased under a contract with the U. S. Corps of Engineers with tenure to December 31, 2050. However, the Secretary of the Army has the right to terminate the contract subsequent to December 2025 by providing at least a five-year termination notice.

Power is purchased under contract with the U. S. Corps of Engineers from its plant located within the Soo Locks complex in Sault Ste. Marie. This contract has tenure to November 1, 2040, and can not be terminated prior to November 1, 2030.

The contract with Consumers Energy has an initial term ending September 9, 2020, and continuing from year to year thereafter until terminated by either party giving at least 60 months written notice. Edison Sault may cancel the contract prior to September 9, 2020, by giving at least 60 months written notice. The contract provides for Edison Sault to purchase 20 MW of power for the balance of the contract.

The 20 MW firm power contract with WEPCo became effective on January 1, 1998, and continues for a period through December 31, 2007. The JOA with WEPCo became effective on January 1, 2001, and continues in full force year to year until terminated upon twelve months notice. The JOA with WEPCo was amended to permit Edison Sault and WEPCo to jointly coordinate the purchase of power from renewable resources.

The following table sets forth Edison Sault's sources of power for 2005. Power supply sources for 2006 are expected to be similar to the 2005 sources.

Source	MWH	Percent	Location
Edison Hydro	211,569	23.1%	Michigan
Edison Diesel	591	0.1%	Michigan
Cloverland Diesel	1,491	0.2%	Michigan
Consumers Energy	173,968	19.0%	See Note 1
U. S. Corp.	161,930	17.7%	Michigan
WEPCo - 20 MW	175,200	19.1%	See Note 2
WEPCo - JOA	<u>190,716</u>	<u>20.8%</u>	See Note 2
Total	915,465	100%	

Note 1. The contract does not specify the source of the power. The majority of Consumers Energy's power supply is generated in Michigan.

Note 2. The contract does not specify the source of the power. The majority of WEPCo's power supply is generated in Wisconsin. WEPCo's 625 MW Presque Isle Plant and several small hydro plants are located in Michigan.

2006 Assessment

Edison Sault's incremental power supply requirements are served through the JOA with WEPCo. Annually, a forecast of Edison Sault's monthly peak demands is prepared and the amount of capacity that will be required to be available to meet the monthly peaks is determined. A 15% reserve margin is included in the determinations. See the attached schedule for Edison Sault's 2006 JOA capacity determinations. The values for the month of July are emphasized as the annual peak for the combined WEPCo and Edison Sault's systems is forecasted to occur in that month.

Transmission Service

Edison Sault is a network transmission customer of the American Transmission Company LLC (ATC). Power purchased under the Consumers Energy and WEPCo contracts reaches the Edison Sault service territory through two ATC owned 138 kV transmission lines at the Mackinac Straits and an ATC owned double circuit 138 kV line connecting the Perkins and Indian Lakes substations at the west end of Edison Sault's service territory. The transmission lines are expected to be sufficient to serve Edison Sault's electric requirements in 2006. The ability to transfer electric power through the eastern portion of the Upper Peninsula is constrained with the present transmission facilities. ATC is in the process of constructing a 138 kV transmission circuit to replace a 69 kV circuit between the Manistique and Hiawatha substations to better serve the electric transmission requirements in the Upper Peninsula.

Retail Access Programs

As of January 1, 2002, Michigan retail customers of Edison Sault were allowed to remain with their regulated utility at regulated rates or choose an alternative electric service to provide power supply service. For customers of Cloverland, retail access is available only to large industrial customers. Customer switching to alternate suppliers within Edison Sault and Cloverland's service territories has not yet occurred. There has been minimal alternate supplier activity, reflecting the small market area, the utilities competitive regulated power supply prices, and a lack of interest in general of the Upper Peninsula of Michigan as a market for alternative electric suppliers. The forecast of Edison Sault's peak loads for 2006 assumes that no customers will switch to an alternative electric supplier.

Stand-Alone Capacity Requirements for Edison Sault in 2006

		Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
ESE Native Load MW		145	139	138	130	126	126	133	134	129	135	136	146
Coincident Ratio (1998-2004)		0.92	0.96	0.95	0.85	0.87	0.90	0.92	0.91	0.91	0.88	0.97	0.95
Coincident Peak Load		133	133	131	111	110	113	122	122	117	119	132	139
Required Reserves @ 15% RM		20	20	20	17	16	17	18	18	18	18	20	21
RESOURCES													
Firm Purchases (w/Reserves) WE		20	20	20	20	20	20	20	20	20	20	20	20
Generation	Consumers Energy	20	20	20	20	20	20	20	20	20	20	20	20
	ESE Hydro	27	27	27	27	27	27	27	27	27	27	27	27
	US Hydro	17	17	17	17	17	17	17	17	17	17	17	17
	Diesels	16	16	16	16	16	16	16	16	16	16	16	16
Total Capacity Provided		100	100	100	100	100	100	100	100	100	100	100	100
Total Reserves Provided		6	6	6	6	6	6	6	6	6	6	6	6
Capacity Shortfall		33	33	31	11	10	13	22	22	17	19	32	39
Reserves Shortfall @ 15% RM		14	14	14	11	10	11	12	12	12	12	14	15
Total Required Capacity		47	47	45	21	20	24	35	34	29	31	46	54

File: MPSCU-1472Assessment.xls

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)
EDISON SAULT ELECTRIC COMPANY for)
authority to implement a power supply cost)
recovery plan for the 12 month period ending)
December 31, 2006.)
_____)

Case No. U-14703

PROOF OF SERVICE

STATE OF MICHIGAN)
)
) SS.
COUNTY OF INGHAM)

Janice Atkins, an employee of Dykema Gossett PLLC, being first duly sworn, deposes and says that on the 16th day of June, 2006, she served a copy of Prefiled Rebuttal Testimony of Leroy M. Baatz on behalf of Edison Sault Electric Company upon persons listed in the attached Service List at their respective addresses, by enclosing copies of the same in an envelope properly addressed, and by depositing said envelope in the United States Mail with postage thereon having been fully prepaid and by electronic mail.

Janice K.
Atkins

Digitally signed by Janice K. Atkins
DN: cn=Janice K. Atkins, c=US,
o=Dykema Gossett PLLC,
email=jatkins@dykema.com
Date: 2006.06.16 15:17:08 -04'00'

Janice Atkins

Subscribed and sworn before
me this 16th day of June, 2006.

Carolyn Ann Priest

Digitally signed by Carolyn Ann Priest
DN: cn=Carolyn Ann Priest, c=US, o=Dykema
Gossett, email=cpriest@dykema.com
Date: 2006.06.16 15:27:23 -04'00'

Carolyn Ann Priest, Notary Public, Ingham Co., MI
Acting in Ingham County, Michigan
My Commission Expires: 07/01/12

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